

PEOPLE
And Another Cause

MONDAY SPORTS
SUNDAY BASEBALL
See Page 21

Herald INTERNATIONAL Tribune

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Paris, Monday, June 27, 1988

Soviet Party Braces For Reform Session To Curtail Powers

By Bill Keller
New York Times Service
MOSCOW — It was harvest time last year when a group of western correspondents dropped on a rising star of the Communist Party, Vyacheslav Morgun, the son of a Ukrainian farm worker, to learn about perestroika as a real enthusiast. The main thing, Mr. Morgun said, citing from the catechism of Mikhail S. Gorbachev, the party leader, is individual initiative. Progress should throw off their dependency on guidance from above and look for themselves. The next morning, visitors who packed on the local radio station and Mr. Morgun again — broadcasting detailed instructions to farmers on how to handle their livestock, apply their fertilizer and dig in their crops. When 5,000 delegates from around the Soviet Union convene Tuesday to begin the first Communist Party conference since 1941, their main task will be to break the party's stifling grip on the lives of citizens. The conference is a tacit admission that the Communist Party, which began the revolution from the top that Mr. Gorbachev calls perestroika, is itself a daunting obstacle to change. The leaders have no intention of rendering the party's command-and-control role in national policy. But even the more limited transfer of power they have in mind, if it actually carried out, would mark a historic turning point for this authoritarian system — extricating a party from the daily operation of the economy and government, setting an elected government system that is no longer merely a pale shadow of the party, and creating a mechanism to protect citizens from arbitrary and abusive officials. The promises of the party con-

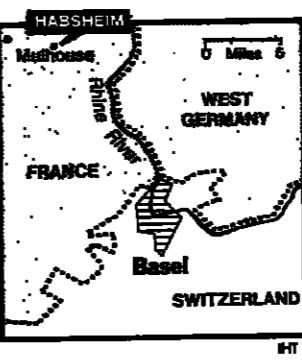


Near Mulhouse, France, police and rescue workers searched the wreckage of an Air France Airbus 320 that crashed Sunday on a demonstration flight.

3 Are Killed in Crash of Airbus at Show in France

Compiled by Our Staff From Dispatches
MULHOUSE, France — An Air France jetliner, the new Airbus A-320, crashed Sunday on a demonstration flight near the French-Swiss border, killing three persons, officials said. They said there were 133 survivors, 50 of whom required hospitalization. Air France canceled a Paris-Zurich flight that had been scheduled to use an A-320 on Sunday and put a Boeing 737 on the Paris-Düsseldorf-Berlin route. In London, British Airways suspended flights of its two A-320 aircraft "as a precautionary measure" until more was known about the accident. Jacques Friedmann, the president of Air France, said a decision on whether to extend the grounding would depend of the recommendation of French civil aviation authorities. Up to 30 people were unaccounted for hours after the accident, Reuters reported. The police had said the missing could include some who fled with minor injuries, or an undetermined number of passengers trapped in the wreckage.

Local officials said 10 to 25 people were trapped inside the plane's fuselage, which tore a 150-meter (500-foot) path through a forest at the end of the airport runway at Habsheim. The officials said the trapped victims were being evacuated. Authorities first said there were 127 aboard when the jetliner went down. Airbus Industrie, the manufacturer, reported 136 aboard. The crash, during an air show at Habsheim, occurred 10 minutes after the plane took off from the Mulhouse-based international airport, 25 kilometers (15 miles) away. Christian Roger, the vice president of the French airline pilots' union, said the copilot had told him that there was no power when the cockpit crew sought it. A local resident who was among the first rescuers told the French radio that the captain's first words to him were: "I wanted to boost the power, but the plane didn't respond." The plane was about 20 meters off the ground with its flaps and landing gear down when it clipped some trees at the end of the runway and crashed in the forest, Bernard Labalette, an amateur pilot who was near the scene of the crash, was



"The plane did not go into a nose-dive," he said. "It belly-flopped onto the trees." An official in the airport's control tower said the plane appeared to lose power as it passed over the field. "There was an explosion and a cloud of smoke," he said, "but from the control tower we couldn't see." An Air France official said the pilot, Michel Hasselme, has been in charge of training other Air France pilots in handling the A-320, which is controlled by a sophisticated electronic guidance system. The pilots' union has called strikes against the domestic airline Air Inter, saying the two-person crew of the A-320 is insufficient. The narrow-bodied, short-to-medium-range A-320 entered commercial service in April. Six had been delivered before Sunday's crash, three operated by Air France, two by British Airways and one by Air Inter. In April, Air France reported an electrical problem during the maiden flight of the A-320 over the center of Paris, but said passenger safety had not been in question. (AP, Reuters, AFP, UPI)

Klosk

Japan Seeking A Mideast Role
JERUSALEM (Reuters) — Foreign Minister Sosuke Uno of Japan visited a Palestinian refugee camp on Sunday and later told Israeli leaders that Tokyo wanted to play a bigger role in the Middle East peace process. Mr. Uno, on a one-day trip to Israel, the first by a high Japanese official, met Foreign Minister Shimon Peres and Prime Minister Yitzhak Shamir. Earlier in the day, he visited a refugee camp in the West Bank and also talked with Palestinian leaders.

MONDAY Q&A



Professor R. S. Stein, Britain's foreign secretary, believes summit meetings are 'extremely useful.' Page 2.

General News

FLO officials agree on a program to use \$50 million to help finance the uprising in Israeli-occupied territory. Page 5.
France announced an agreement on the future status of New Caledonia. Page 2.
U.S. drought is causing grain supplies to be depleted at a fast rate. Page 3.
Sports
Soccer fans in Amsterdam celebrated as the Dutch team brought home the European Championship cup. Page 21.
Business/Finance
West German and British opposition to a European central bank is likely to win out at the EC summit meeting. Page 15.
Mitsubishi Heavy Industries is profiting from Japan's arms buildup. Page 15.

Special Report

Despite the emblems of achievement, the Japanese are all trying to come to grips with their success. Pages 7-13.



Armenians rallying in Moscow on Sunday to demand a solution of the Nagorno-Karabakh dispute. Their outspokenness set the tone for a meeting on Tuesday on a lesser role for the Communist Party. In Nagorno-Karabakh, protesters called off a strike that had been under way for a month. Page 2.

Japan, Changing Image, Moves Into Role as Asia's Advocate

This is expected to give the region, led by Japan, a more effective voice in world affairs. Asian economists said that if current high rates of growth continued, East Asia by the turn of the century would produce more than 20 percent of gross world product, a share approximately equal to those of North America and the European Community. Among the factors seen as marking the end of a long period of Japanese diffidence are a generally higher international profile and an assertive leadership posture on behalf of Asia adopted by Noboru Takeshita, the Japanese prime minister, in Toronto. Mr. Takeshita drew the attention of the summit meeting to the needs of the Philippines, Cambodia and South Korea. He also called for dialogue, not confrontation, between established industrial powers and newly industrialized countries in East Asia over trade and currency disputes. Bill Hayden, the Australian foreign minister, said that Japan's role, in both regional and global affairs, was now rapidly evolving in unexpected ways. "It challenges historical experience," he said, "which has suggested hitherto that, in order to be a major power and recognized by others as such, a country needs to be a major military power." Prime Minister Lee Kuan Yew of Singapore said that Japan "more than any other country, understands the need to keep the

inflationary effects of rising import costs. TOKYO — The dollar is expected to strengthen further in foreign-exchange markets this week, reflecting pent-up demand for the currency among Japanese financial institutions and speculative interest that appeared to be gathering force at the close of trading Friday. Currency dealers and economists said over the weekend that they anticipated a rapid rise in the value of the U.S. unit to 132 yen or more by the end of the week. The surge in global demand for dollars has been centered among Japanese life insurance companies and other financial institutions, which are beginning to increase their purchases of U.S. securities for the first time in many months. This has focused increased attention on whether the Bank of Japan, the central bank, will act to support the yen this week in order to avert

Behind Dollar's Rise, Japanese Demand

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Takeshita Work At Summit Cited

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Iraq Says Major Oil Zone Falls

The Final Victory Over Iran Is Near, President Asserts

By Patrick E. Tyler
Washington Post Service
KUWAIT — The Iraqi Army, in its fourth offensive since April intended to push Iranian forces off its territory, said it has retaken the oil-rich zone known as the Majnoon Islands, in Iraq's southern marshlands. President Saddam Hussein declared Sunday that final victory was near. Iran acknowledged that its troops had been forced to renege on new positions in the face of the Iraqi advance. In Washington, senior administration officials said that the Iraqi recapture of the Majnoon Islands was a major victory. The New York Times reported. [One official described the islands as "the last important piece of Iraqi territory held by Iran. Although Iran still holds large pockets of territory on the northern border, they are largely not strategically important," he said.] As in other recent battlefield losses, Tehran accused the Iraqis of using chemical weapons. The new attack underscores the strong military momentum Iraq has established, as well as its successful effort to recover part of its national oil wealth. Iran has lost at least two other battles on the southern war front in recent months, as well as June 18 against Iranian rebel forces in the northern Iranian border village of Mehriz. The losses come at a time of apparent political turmoil in Tehran following contentious parliamentary elections and amid persistent Western news reports that Ayatollah Ruhollah Khomeini, the Iranian revolutionary leader, has terminal liver cancer. The islands sit atop one of the region's largest oil fields straddling the Iran-Iraq border. They are linked by a network of roads built over the marshes in the 1970s to make them accessible for oil exploration. Isam Abd ar-Rahim ash-Shalabi, the Iraqi oil minister, has said that the oil field contains 6 to 7 billion barrels of proved oil reserves and estimated reserves of up to 30 billion barrels. Iran seized the islands during a June 18 offensive. See GULF, Page 5

Behind Dollar's Rise, Japanese Demand
The inflationary effects of rising import costs. TOKYO — The dollar is expected to strengthen further in foreign-exchange markets this week, reflecting pent-up demand for the currency among Japanese financial institutions and speculative interest that appeared to be gathering force at the close of trading Friday. Currency dealers and economists said over the weekend that they anticipated a rapid rise in the value of the U.S. unit to 132 yen or more by the end of the week. The surge in global demand for dollars has been centered among Japanese life insurance companies and other financial institutions, which are beginning to increase their purchases of U.S. securities for the first time in many months. This has focused increased attention on whether the Bank of Japan, the central bank, will act to support the yen this week in order to avert

Dole Appears Top Pick for Bush Ticket

By Gerald M. Boyd
New York Times Service
WASHINGTON — Based on his experience, regional appeal and campaigning skills, Senator Bob Dole is emerging as the early choice of top aides and advisers to Vice President George Bush for the second spot on the Republican ticket. Mr. Bush, who has locked up the Republican presidential nomination, spoke glowingly of Mr. Dole on Friday while stressing that the process for selecting the nominee

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كندا والولايات المتحدة

Pope Past... Be... Austrian... To Look

PLO Officials Set \$50 Million To Help Anti-Israeli Uprising

By Ihsan A. Hijazi
New York Times Service
LEISURE — Leaders of the Palestine Liberation Organization have set aside \$50 million to support Arab uprisings in the Israeli-occupied territories, according to Palestinian representatives.

More than 200 Palestinians have been killed since December, when the uprising broke out in the West Bank and the Gaza Strip. Guerrilla leaders, including Mr. Arafat, say the PLO is the guiding force in the disorders in the lands occupied by Israel since 1967.

Others took exception to the exclusion from the committee of Abu Jihad's widow, Umm Jihad. She often acted as an assistant to her husband.

SOVIET: Party Braces for Crucial Reform Session

(Continued from Page 1)
The call for secret ballots, limitations of office, competitive elections for the party leadership, abolition of party agencies that duplicate and dominate responsibilities of government departments, will also be able to issue directives to the Supreme Soviet to enact new electoral procedures for government posts and new safeguards for civil liberties, which have often been ignored.

In an attempt to discredit the party's monopoly on power, analysts have described how its tendrils grew like a parasitic jungle vine through society, suffocating the economy, stifling individual initiative and sometimes fostering corruption.

Another proposal facing the conference would revoke the party's power to issue decrees that bind the government. Typically, Soviet policy is hatched in the party, and issued as a joint directive from the party and government.

Materials to Egypt

Celebrity Lawyer Is Accused
The Associated Press
LOS ANGELES — Marvin Minton, 50, the celebrity divorce lawyer for such stars as Joan Collins and "Dynasty," is facing misconduct accusations, filed by the California State Bar Association, stemming from alleged mishandling of clients' money.

GULF: Iraq Cites a Gain

(Continued from Page 1)
bloody offensive in February 1984. That Iranian campaign appeared aimed at penetrating one of the weak points in Iraq's border defense lines because Iraq's superior tank forces could not easily operate in the sprawling marshlands.

JAPAN: In the Far East, Increasing Respect for Its Work on Development

(Continued from Page 1)
national security, commented: "Everybody is relaxed because the Americans are still in the region."
Mr. Wanandi, executive director of the Center for Strategic and International Studies in Jakarta, said that Japan was increasingly identifying itself with the needs and aspirations of other non-Communist countries in Asia.

Japan's rise as a regional leader has coincided with a relative decline in U.S. economic power which, American officials have warned, will inevitably curb the flood of imports from East Asia into the U.S. market.

The Singapore leader and other officials in the region said they were interested in proposals advanced by Japan and Australia for like-minded trading nations to act in concert with Japan in international negotiations to advance their economic goals and preserve free trade.

U.S. leaders, he said, knew very little about this upcoming generation. The United States, he cautioned, would have to do much more to understand the region.

CLASH KILLS 3 SYRIANS

Artillery duels erupted in Beirut between rival Palestinian factions on Sunday at Palestinian refugee camps, killing three Syrian soldiers, Reuters reported from Beirut, quoting Palestinian sources.

TAKESHITA: Japan Leader Focuses World Attention on Asian Issues

(Continued from Page 1)
East-West relations have given Japan a chance to expand its political role in regional affairs.

The first personnel contribution it has made to a peacekeeping effort. In Toronto, Mr. Takeshita pressed participants at the summit meeting to support a political settlement in Cambodia once Vietnamese troops are withdrawn.

History is acknowledged as one factor in this, despite the reduced number of references to it. More immediately, any suggestion that Japan was evolving into a substitute for direct relations between the West and the developing nations of Asia would quickly scuttle Tokyo's advances, officials believe.

While Japanese officials are impatient with what they view as Tokyo's insufficient influence in groups such as the OECD, they are also reluctant to relinquish the prestige attached to such associations. Equally, many Asian nations fear the power Japan would necessarily wield in a Pacific economic group.

DOLE: Bush Camp Considers Senate Majority Leader

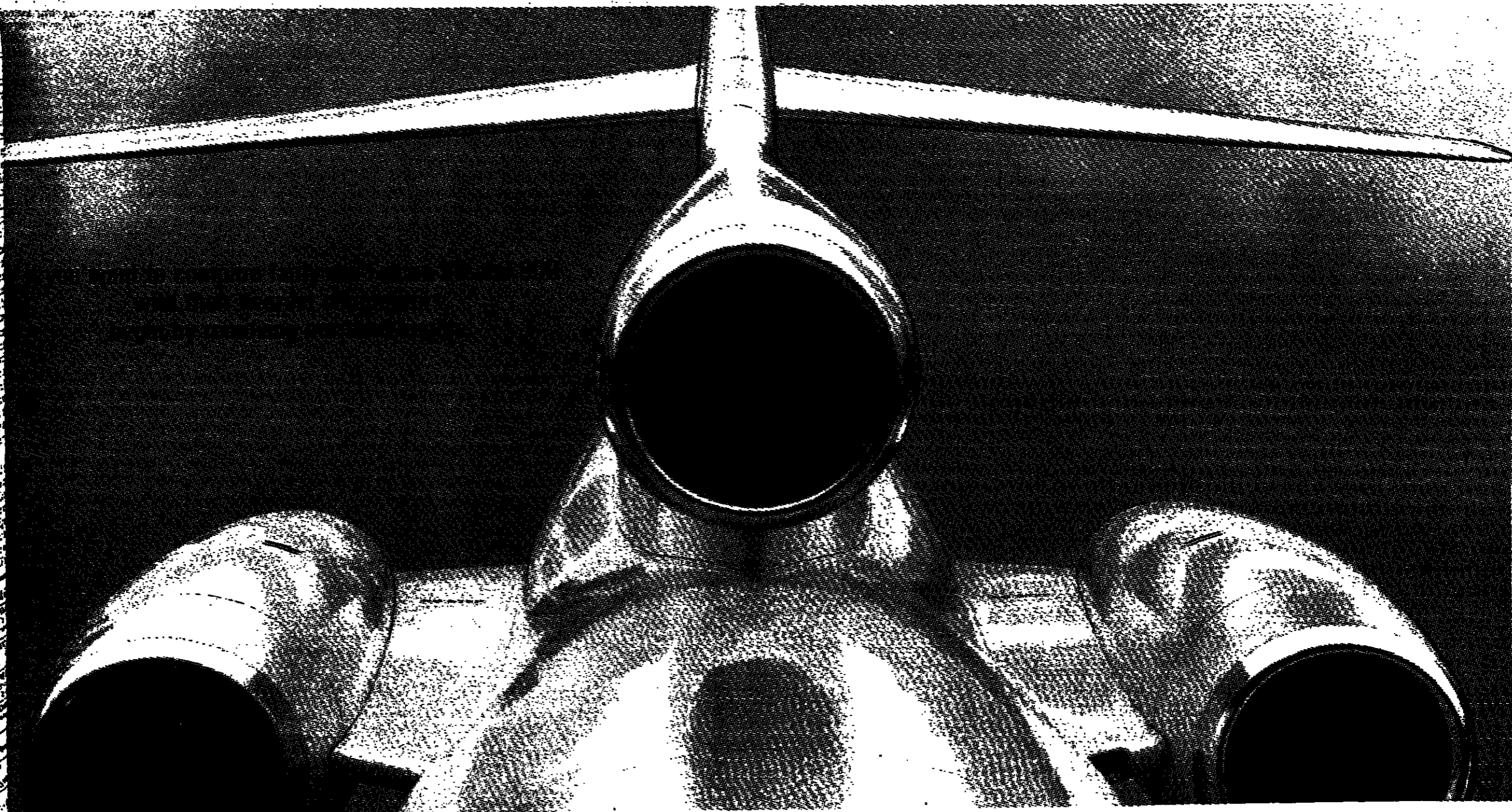
(Continued from Page 1)
is seeking someone who is compatible, loyal, qualified to be president and experienced in foreign policy or, as Mr. Bush explained recently, "another George Bush." In Mr. Dole's presidential campaign, he argued his qualifications and experience, and in recent weeks he has been demonstrating his loyalty and compatibility.

Associates of Mr. Dole have recently described him as being bored with the Senate, especially on the minority side. As vice president, they argue, he would have a new platform for his legislative skills.

could be making a statement that would embarrass the Democrats. By picking the man who finished second to him, Mr. Bush could highlight the action of Governor Michael S. Dukakis if he bypasses the Reverend Jesse L. Jackson, who ran second in the Democratic primaries.

"There's an appreciation for the way Bob Dole is handling himself," said a close associate of Mr. Bush. "There's a consensus that he strengthens the ticket, particularly in the Midwest."

"We don't really know yet what we can do in the region," said Mr. Kawanishi, the Maimichi Shimbun commentator. "Japan is still finding out how far it can go."



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Business takes off with Falcon.

Herald Tribune

A Test for Gorbachev

The West Is Watching

Moscow's Americanologists... analyze every presidential election, trying to figure out the next twist and turn in U.S. policy.

Mr. Gorbachev is promoting both political and economic reforms. It is not clear whether an economically stronger Soviet Union would be good or bad for the United States.

The conference will consider several issues which have already been approved by the party's Central Committee. They concern judicial reform (more independence for judges, guarantee of citizens' personal and privacy rights).

estroika, these programs are still not irreversible. If Mr. Gorbachev now shows that he can make his agenda stick, his success will give the West confidence for the next steps in East-West relations.

Back Down to Earth?

The most dramatic party meeting of the summer is the one about to open in Moscow. The "party conference" of the Communist Party of the Soviet Union takes on this aspect as a result of the remarkable struggle going on within it over Mikhail Gorbachev's reform.

Tucker has observed, goes beyond economic tinkering to radical reform of the political culture. The old conservative style of command from the top down is what brought the country to the rot that Mr. Gorbachev has used glasnost, or openness, to force it to face.

In the economic sphere, the central bureaucracy fights decentralization in planning and management, and at all levels officials shy from the chance play of market forces.

American, including Ronald Reagan, are fascinated by the Gorbachev adventure. Inside the Soviet Union there is excitement, but there may also be a more sobering awareness of the difficulties that is evident in the more unceremonious Western views.

What Is Zia Up To?

What is President Zia doing in Pakistan, throwing out the civilian cabinet and dissolving the parliament? He had some complaints apparently about the way Prime Minister Mohammad Khan Jomeid (no revolutionary) was running the government.

country is unprepared for much beyond "guided democracy" and that it has a special need for military-led stability as the Soviets leave Afghanistan and as the United States and others contemplate the "post-Afghanistan" prospect.

Other Comment

Europe: Nation-States Still

How is this vast single European market going to defend itself, as the price of getting all the economic advantages of a single market, the great nation-states of Europe have had to renounce all those aspects of national independence for which ordinary people are prepared to die?

ment parts, it will be deficient in the most vital of all sources of strength: love of country. As long as Russian nationalism remains in all its pristine vigor, it would be blind folly for the countries of Western Europe to suppose that some ersatz elixir, called Europeanism, can hope to stand up to it.

For Better Relations, Get On With Reforms

By Richard C. Holbrook

NEW YORK—Clearly the Communist Party conference opening tomorrow in Moscow will be a historic event that could determine the future of Mikhail Gorbachev's reforms.

In the last 40 years the relationship between the two countries has been affected far more by Moscow's behavior than by America's leaders.

Most Americans hold somewhat contradictory views simultaneously. They distrust and dislike the Soviet Union, but they favor efforts to reduce the risks of war.

This is not to suggest that the Soviet Union must turn into a democracy in order for Washington and Moscow to move forward. We all know that this is not going to happen.

Those actions reminded Americans that behind the photo opportunities the Soviet Union was still a Stalinist state, and shifted the political balance in the United States so that further progress was impossible for a time.

This history strongly suggests that the key variable in the relationship is not who is in control in Washington but what is happening in Moscow.

Of course, important differences exist between the American presidential candidates on how to deal with the Soviet Union. George Bush has taken a far more hostile stance than Michael Dukakis—or, ironically, the new Ronald Reagan—and it is not unfair to assume that Mr. Dukakis would make far more vigorous efforts to dislodge progress.

If the Soviets want to improve relations with America in a fundamental way, their own reforms are critically important.

The writer, a managing director at Shearson Lehman Hutton, investment bankers, was assistant secretary of state for East Asian and Pacific affairs in the Carter administration. He contributed this comment to The New York Times.

'Peaceful Coexistence' Has Never Been Enough

By Arthur Macy Cox

WASHINGTON—Mikhail Gorbachev miscalculated badly at the Moscow summit when he proposed that U.S.-Soviet relations be guided by the principle of peaceful coexistence.

Obviously, nothing is wrong with the words "peaceful" and "coexistence." But as interpreted by Moscow—the avoidance of war among the major powers—the theory is unacceptable to the United States.

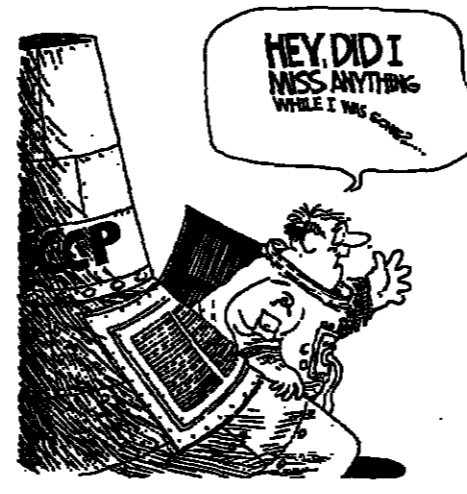
The term was invented by Lenin after the revolution. While he thought that confrontation with the West was inevitable, he also realized that his fragile government had to avoid a collision as long as possible.

In 1956, Nikita Khrushchev and the party leaders decided that war, deterred by nuclear weapons, was no longer inevitable. Even though they agreed that peaceful coexistence remained essential, the Cold War continued unchecked.

At the 1972 Moscow summit, Richard Nixon and Leonid Brezhnev signed the "Basic Principles of U.S.-Soviet Relations," which said that in a nuclear age there was no alternative to peaceful coexistence.

Clearly, "peaceful coexistence" is an inadequate term that represents the old thinking. Stable coexistence, or the demilitarization of U.S.-Soviet competition, is far better.

Mr. Gorbachev has said that competition should be limited to economics, politics and ideology. This would mean that neither superpower would try to advance its political objectives with direct or indirect military force.



Palestinian Strategists Will Have to Do Better

By Stephen S. Rosenfeld

WASHINGTON—The trouble with the Palestinians, their curse, is that they have a cause, but no strategy for achieving it.

The proposal surfaced as an unsigned "document" and was widely circulated in Algiers, although, it seems, in English only.

The document articulates Israel's and defines Israel's as well as the Palestinians' objectives as lasting peace and security.

The Israeli government, eager for peace on its own terms, is only embarrassed by any impression of reasonableness and limited objectives put forth by the PLO.

wounded by a letter bomb that the PLO attributed to the Israelis. For this latest statement, which voices thoughts for which Palestinians are sometimes murdered by their own, he was denounced for "high treason" by hard-line PLO factions.

There is a kind of affirmative-action case to be made for Palestinian wisdom. It is not an adequate basis on which Israel can plan for its future, but it may be the only basis available on which something sturdier can be built.

In the next several days Mr. Isaac or his partners were questioned at military headquarters and held for five days. His telephone was cut off.

The shop was a success. It met the new desire of Palestinians for self-sufficiency—ways to make themselves economically independent of Israel. Along with the sales, Mr. Isaac gave advice on gardening.

building by politicians sensitive to each other's unspoken needs. But this is the Middle East: rough terrain for tender shoots. Whatever Mr. Sharif intended, his initiative seems to be coming out as a demonstration of Palestinian frailty.

It must be the future because occupation requires repression. Palestinians cannot be allowed to become self-sufficient. They must be part of the Israeli market, dependent on it to live.

Repression breeds hate, the late Justice Louis Brandeis said. The Palestinians do not accept their fate meekly. The violence that has smoldered at low levels during the uprising may grow worse.

Sovereignty Is Eroding What Next

By Flora Lewin

PARIS—The pious principle of "national sovereignty" and "non-intervention" have never been so late except in oratory.

Now they are eroding not because of greed and cynicism but because of hard facts of international law. The old ideas are getting away of adjustments needed to weak at least as much as by the clinging to sovereignty can in an era of national capacity has come in with a new spirit of universal unity at the crest of national enclaves.

In London, The Economist has favored a "moderated East German currency for the East Community" that it specifically names after Jean Monnet, for the Common Market. It points out that would not be enough, but since losing the sovereign print money could cause severe problems unless members also see harmonious economic policies.

The UN Charter provides for a number of circumstances that can run from political desert to economic sanctions to the force. The big difference is its decision requires international approval. Because of the Cold War plan to set up a standing UN intervention command never used.

The UN Charter provides for a number of circumstances that can run from political desert to economic sanctions to the force. The big difference is its decision requires international approval. Because of the Cold War plan to set up a standing UN intervention command never used.

Should interdependence be some form of intervention in its human rights, or does sovereignty rulers to treat people within borders as they choose? Democratic elections matter to outsiders like the legal issues but toward new approaches. It is for facing all national elections with the United States under a of an unofficial but highly pre international group, such as the Action Council of former gover leaders. Fair elections would be held. Silence would reason.

The old precepts of international relations are being overtaken real world of inevitable ties. The New York Times.

1938: Mexican Crisis WASHINGTON—Officials of the Administration read with great interest the New York Herald's Mexico

100, 75 AND 50 YEARS AGO

1888: German Manifesto

NEW YORK—The speech in Berlin of the Emperor William II was enthusiastically received by all Germans in America. The New York Staats Zeitung says today (June 26): "All Wilhelm the Second's previous utterances fade into nothingness by the side of the speech from the throne. Its first words are of pregnant interest, as he declares his foreign policy to be one of peace. The greater part of the speech is an answer to Russia that has sought to make it appear that the Triple Alliance was anything but a bond of peace. At the same time the Emperor has Russia in view when he adds that the party attacking one of Germany's allies becomes thereby Germany's enemy. The speech is a peace manifesto to the world."

1913: Mexican Crisis

WASHINGTON—Officials of the Administration read with great interest the New York Herald's Mexico

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Japan: Grappling With Success

A Season of 'Initiatives' to Match a Global Role

The reactive aspect of our system is changing, but for many of us the change is not coming nearly as quickly as it should.

By Patrick L. Smith

"When situations change, the Japanese can change their bearings and set themselves on a new course."

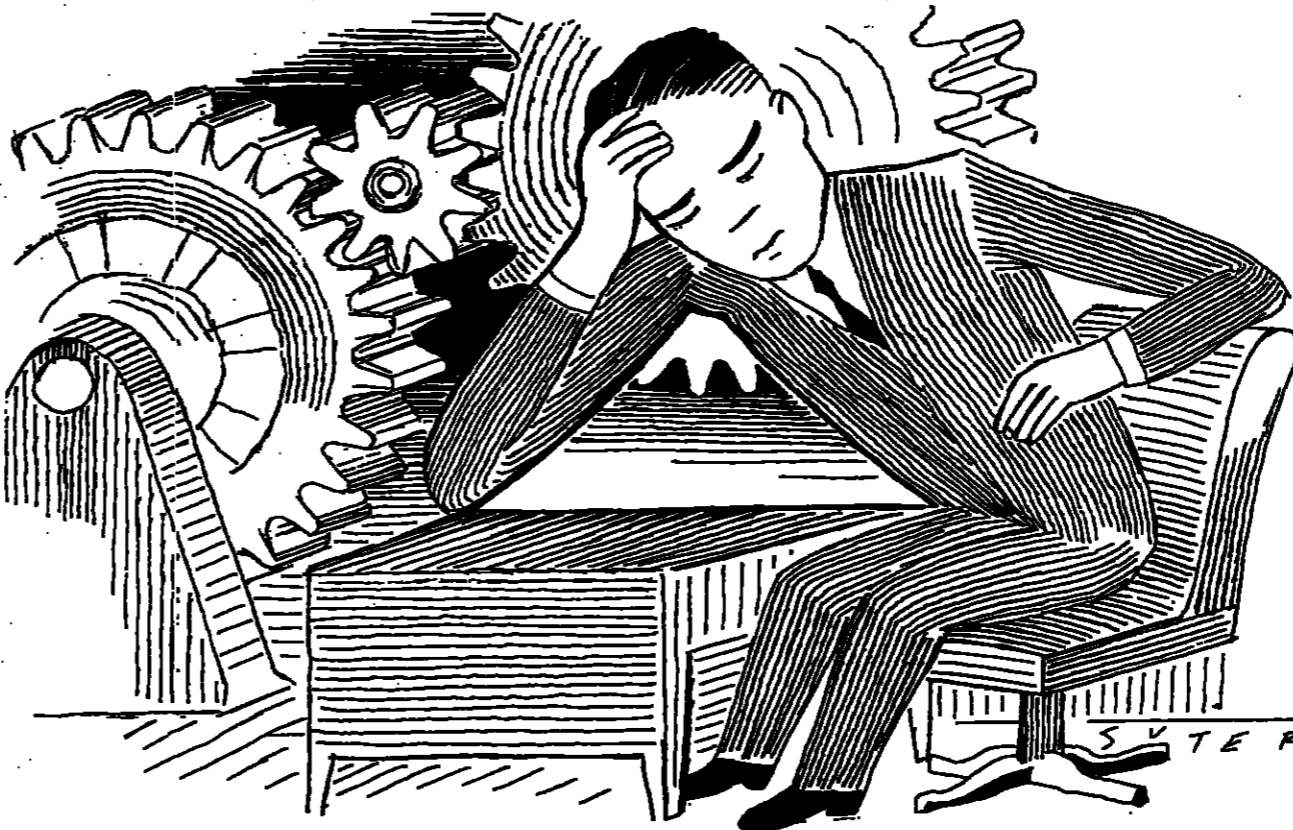
Ruth Benedict, "The Chrysanthemum and the Sword," 1946.

TOKYO — The emblems of achievement are all in place: The nation's banks are the largest, its per capita income is the highest, its per capita donor and number one source of credit. At home and abroad, its 122 million citizens are consuming more than at any previous time in their history.

There is no mistaking the swell of pride that has accompanied Japan's attainment of such superlatives. And nowhere was this "changed situation" more graphically evident than at the recent summit meeting of advanced nations in Toronto, where the Japanese presence was frequently compared with that of the United States at summit sessions gone by.

In Tokyo it is the season of "initiatives," each a display of the nation's determination to advance toward a place in the global order that is both independent and in keeping with its newfound prominence. So far these have ranged from foreign aid and domestic spending to science, technology and security.

Each such effort is also intended to lend substance to the ideas first put forward by



David Suter

Yasuhiro Nakasone, who completed five years as prime minister last year. Having achieved its postwar goal of rebuilding the nation, Mr. Nakasone asserted in many different contexts, Japan must determine where it goes from here.

What is now emerging in Japan, however, is not an enthusiastic search for responses to the challenge of "internationalization." Rather, it is an ambivalent, often reluctant groping by officials for answers to unexpected questions and a sense among the Japanese that the taste of success has so far proven bland.

If the situation has changed, the questions still linger: Is Japan struggling to "set a new course," as Miss Benedict, the renowned anthropologist, wrote in a different era? Or is it sinking into the smugness of affluence and an ennui that has beset the national disposition at intervals in recent history?

"I credit the Japanese with understanding their responsibilities in a relatively short period of time," said Kazuo Aichi, a prominent mem-

ber of the national legislature. "But it's not sufficient yet. An idea is one thing, to translate it into concrete proposals is another."

At home at least, it appears to be of little importance that the tasks at hand have fallen to Prime Minister Noboru Takeshita, a leader who advances the values of the traditional village more vigorously than those of a statesman on the international stage.

As if to compensate for the contrast between his own political profile and that of his predecessor, Mr. Takeshita has placed unusual emphasis on international appearances and the addition of hard results to the broad concepts left behind by Mr. Nakasone.

In many respects, the accomplishments have been impressive. In recent weeks, Mr. Takeshita has overseen a dramatic increase in Japan's foreign aid program, signed a pact with the United States on scientific cooperation and settled long-running rows over access to the Japanese construction market and imports of

beef and oranges — minor trade issues but major bilateral irritants.

On the defense front, diplomats say, the prime minister has brought Japan's role in maintaining U.S. bases here to the allowable limit under the current status-of-forces agreement between Tokyo and Washington.

The pace of economic growth — 11.3 percent on an annual basis in first-quarter 1988 — is an unassailable demonstration that Tokyo is doing its part to restore equilibrium to global trade. The prime minister is also committed to engaging the sensitive issue of tax reform, another key to raising domestic consumption.

Even the administration's opponents concede that Mr. Takeshita's brief record offers clear evidence of change in Japan. But it is just as clear, they say, that the fundamental sources of criticism have so far gone unaddressed.

The nation has yet to demonstrate, above all,

a willingness to place political and diplomatic considerations above the economic self-interest that has defined policy in the postwar era. Despite recent foreign aid increases, for instance, almost three-quarters of Tokyo's disbursements still flows to Asian nations, where opportunities for Japanese manufacturers are greatest.

More broadly, many analysts ask, which of Japan's recent initiatives was launched without the exertion of extreme pressure from overseas, usually from the United States? Ire abroad is widely recognized as an almost essential tool whenever the governing Liberal Democratic Party is faced with the necessity of altering policy at home.

To an extent, an unexpectedly strong performance by Mr. Takeshita in Toronto has begun to blunt such criticisms. But a wait-and-see attitude toward the impact of the prime minister's efforts remains prevalent even among many government officials.

"Yes, this reactive aspect of our system is changing, but very gradually," Sakutaro Tani, a senior Foreign Ministry official, said recently with undisguised impatience. "And for many of us, the change is not coming nearly as quickly as it should."

SUCH comments are typical, since the Foreign Ministry is among the most forward-looking sections of Tokyo's powerful bureaucracy. But Mr. Tani and other ministry officials readily acknowledge they are the bureaucracy's weakest link; time and again, their efforts are defeated by more conservative agencies.

Commentators in and out of government often locate the centers of resistance and inertia in Japan among the Japanese themselves. The nation's relatively poor quality of life, which is almost universally acknowledged, is hardly conducive to a broadening of public perspectives on the responsibilities Japan now faces, local political analysts add.

But the problem lies less in popular attitudes than in the nature of power itself, a growing number of Japanese and foreign analysts assert. The speed at which Japan liberalizes, they say, will depend largely on how quickly the nation transforms itself into a society in which consumers have a greater voice.

There has been incremental movement away from the standing postwar formula, in which the bureaucracy served industry and individuals contributed a high national savings rate. The current effort to alter the national tax

Continued on page 9

THE NEWS

March 22: Toshiba Is Fined

Illegal Trading
The Machine Co. is found guilty of illegally trading with the Soviet Union and is fined \$15,000. Two company executives are suspended jail sentences in connection with the affair which involved sale of some military technology to the Soviet Union from 1962 to 1984.
More on TOSHIBA, page 8.

March 24: GATT Panel

on Chip Pact
Part of the General Agreement on Tariffs and Trade rules that Japan's agreement with the United States to open markets for its exports of microchips is in line with the rules of the trade organization.
More on TRADE, page 9.

April 30: Takeshita Starts

European Tour
Prime Minister Noboru Takeshita visits Britain at the start of an 11-day tour of Western Europe. He is expected to open talks with British officials on Japan's ties with European community countries. Mr. Takeshita's first visit in Europe as Japan's leader, is expected to be a personal challenge.
More on TAKESHITA, page 8.

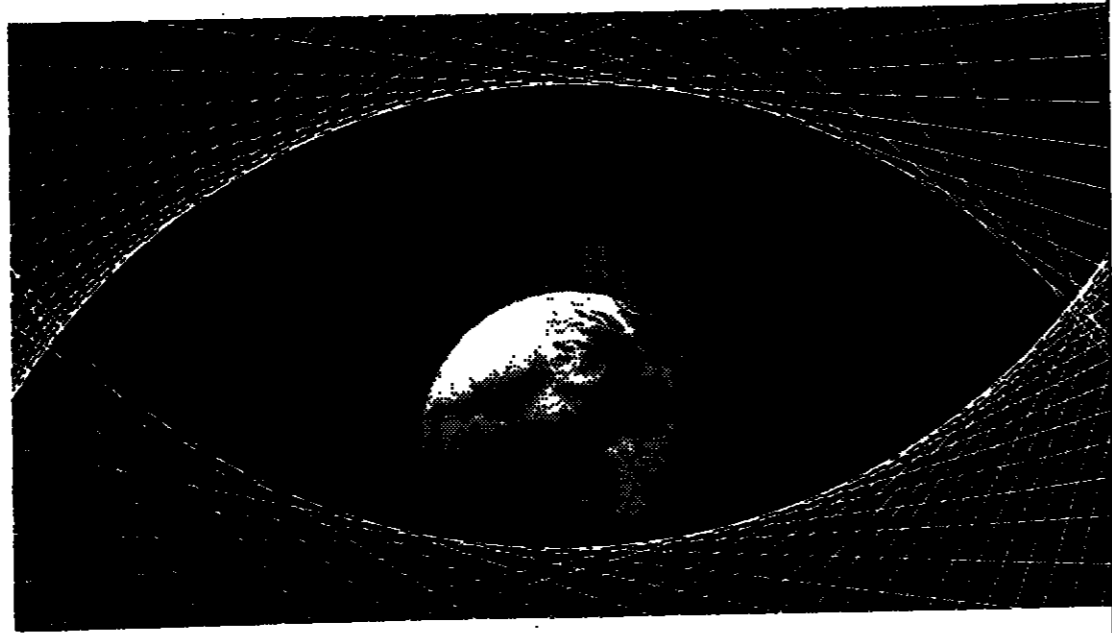
May 14: Party Announces

Reform Proposals
The governing Liberal Democratic Party announces its proposals for a broad reform of the tax system. On the same day, it announces that it will donate more than \$1 billion in economic aid to developing nations between now and 1992.
More on AID, page 10.

May 23: Economy Posts

Record Growth
Japanese economy expanded at an annual rate of 11.3 percent in the first three months of this year, its fastest pace in almost a decade. The increase represented a fourth consecutive year of accelerated growth.
More on the ECONOMY, page 9.

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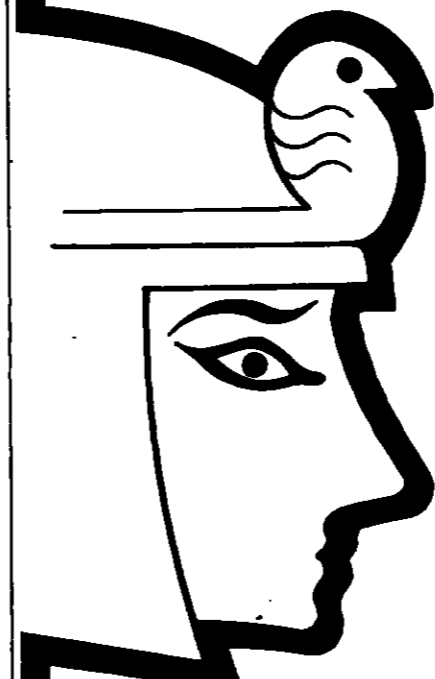
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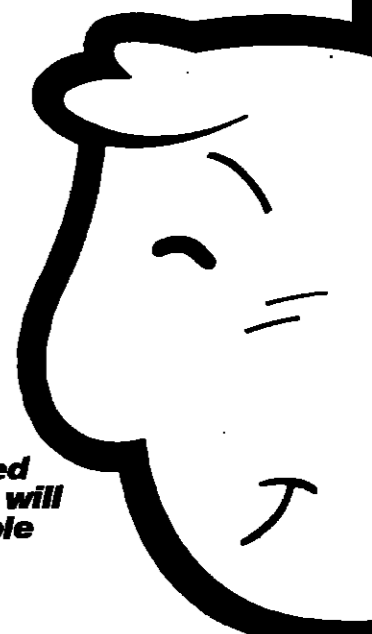
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Toshiba Case Marks Security Discussions With Washington

By Daniel Sneider

TOKYO — When Japan decided to fund the first of several Aegis-equipped ships in this fiscal year's budget, the Pentagon was naturally delighted. For several years, the Pentagon has been quietly pushing Japan to acquire Aegis, its most advanced radar system, designed to defend ships against air attack.

The decision will give Japan a significant capability to fulfill its pledge to defend the sea lanes out to 1,000 miles from its shores.

Within Japan, the government has been criticized for wasting money on a ship that is too costly, at about \$1 billion each, and unnecessary for Japan's defense.

Ironically, the strongest, and certainly most unanticipated, opposition has come from within the United States. A small but powerful group of Congressmen has been trying to block the sale.

The Aegis case is only one of many reflections of new tensions in the U.S.-Japan security relationship in the aftermath of last year's highly publicized Toshiba Machine case. The Japanese company illegally sold sophisticated propeller-milling machinery to the Soviet Union that could have been used to make quieter submarines.

"In the view of the Toshiba matter, we can't afford to offer the Star Wars of the sea to a country that has been unable to protect our secrets," declared Representative Duncan L. Hunter, Republican of California, who has led the anti-Aegis fight.

Mr. Hunter was also in the forefront of a wave of anti-Japanese actions when the Toshiba affair broke in the spring of last year. He was one of nine Congressmen who wielded sledgehammers in front of the Capitol to smash a Toshiba-made radio in a much-publicized display of their demand for sanctions against the firm. He sponsored legislation to impose punitive measures against Toshiba Machine and its parent, the giant electrical manufacturer Toshiba Corp.

The Toshiba legislation is the most prominent example of the anti-Japanese feelings generated by the potent mixture of trade friction and the image of Japan as a lax security partner.

According to some U.S. critics, Japanese business and government have been more interested in doing business than in enforcing restrictions on the flow of militarily sensitive technology to communist countries. Japan is a member of the 16-nation Coordinating Committee on Export Controls, or COCOM, the Western body that coordinates controls on strategic technology flows.

Congress ultimately passed an amendment to the Omnibus trade bill that imposes a 3-year import ban on Toshiba Machine and somewhat milder sanctions on the parent firm.

The Reagan administration opposed such measures, pointing to the significant efforts Japan has made since the case to tighten their controls and revise laws to impose tougher penalties on illegal exporters. The U.S. legislators, officials of both countries argued, is a violation of Japan's sovereignty and could undermine the functioning of COCOM.

The president's veto of the trade bill did not cite the Toshiba sanctions as a cause for rejection, signaling that a revised bill with the sanctions would not draw a veto.

The concerns about technology have melded into larger complaints that Japan, along with some Western European nations, is not carrying its fair share of defense. The most oft cited comparison is the level of defense spending as a percentage of gross national product — nearly 6 percent in the United States and little more than 1 percent in Japan.

"Japan's efforts are too little and too slow," said Representative Patricia Schroeder, Democrat of Colorado and chairwoman of a House

Pentagon officials have been waging a battle against a 'new isolationism.'

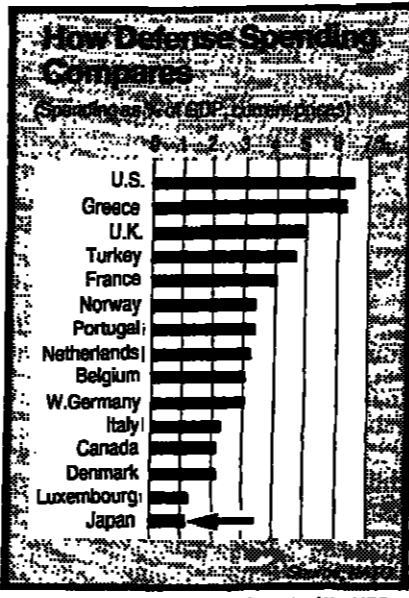
of Representatives panel on burden sharing, at hearings in February.

Japan draws particular fire for running a huge trade surplus while the U.S. trade and budget deficits remain massive. The U.S. deficits, such critics argue, are due in part to a global defense burden that the United States can no longer shoulder to the current extent.

While calling on Japan to do more in the area of defense, Pentagon officials have been waging a battle in the Congress and elsewhere against what Defense Secretary Frank C. Carlucci has tabbed a "new isolationism."

"I have tried to make certain the American people — and their representatives in Congress — do not underestimate what our allies contribute toward our common defense," Mr. Carlucci said in a speech to the Japan National Press Club early in June. "In Japan's case, those contributions are significant, and they are on the increase."

Mr. Carlucci cited the steady growth in Japanese defense spending, averaging almost 6 percent a year during this decade, and the extension of Japan's defense sphere to cover air and sea lanes out to 1,000 miles from its coast. Japan's American-authored post-World War



II constitution limits its military role to the self-defense of its own territory.

"In another measure of alliance support," Mr. Carlucci noted, "Japan spends an average of \$45,000 each year for every American serviceman and servicewoman stationed here — the most generous host-nation support of any American ally."

U.S. defense officials also point to progress in the area of cooperation on defense technology development. During Mr. Carlucci's visit, the two countries concluded talks on an agreement for joint development of a new fighter aircraft based on the design of General Dynamics' F-16.

Pentagon officials privately worry that potential Congressional actions on programs like the Aegis sale could endanger this kind of cooperation.

Japanese and U.S. officials agree that the greatest area of expansion of defense technology should come in the area of economic development assistance to countries that have strategic importance, such as the Philippines, rather than a much larger military buildup. Japanese aid, a Foreign Ministry official explained, is restricted by law to nonmilitary purposes. "But it is strategic in the sense of where the money is going," he said.

For the past 10 years, he said, "we are giving to what we call countries located around a conflict area." He mentioned recipients like Turkey, Egypt, Oman, Thailand, Indonesia, Pakistan and the Philippines. Aside from the Philippines, assistance for Afghan refugees is high on Japan's current list.

Japanese officials, who point with pride to the relatively upbeat record of security cooperation, respond testily to their American critics. "We welcome any argument based on objective facts and that is what the American administration is doing," the Foreign Ministry official explained. "On that basis, if there is more Japan can do for international welfare, we will do. But if there is going to be just emotional slander, there is going to be a very strong reaction from this country as well."

DANIEL SNEIDER is the Tokyo correspondent for The Christian Science Monitor and for Defense News.

Takeshita Keeps Pundits Guessing

By Margaret Shapiro

TOKYO — When Prime Minister Noboru Takeshita took office last November, few grand predictions were made. Skilled at backroom political maneuvering, Mr. Takeshita was widely be-moaned even in his own party as too vague, unable to lead and lacking in the foreign policy expertise to serve Japan's global interests well.

In six months the diminutive Mr. Takeshita has proven the political pundits both right and wrong. His vagueness and reluctance to step out front remain legendary, as does his eagerness to accommodate all factions of his ruling Liberal Democratic Party, even at some cost to Japan's international relations. Yet Mr. Takeshita has begun to solve some of the thorny problems that his more flamboyant and internationally popular predecessor, Yasuhiro Nakasone, left behind, albeit in an often agonizingly slow manner.

Analysts say it is still too early to conclude whether Mr. Takeshita will prove to be the masterful politician that his proponents assert or the directionless and quickly forgotten interim that his detractors predict. It is also too soon to know whether Mr. Takeshita can achieve what is likely to be one of his major goals: winning a second two-year term.

"It's only been six months. We have to wait a year probably to make any clear judgment," said a political consultant, Takayoshi Miyagawa.

Still, a quarter of the way through his term, Mr. Takeshita appears fairly popular at home, even if he is far from a household name abroad.

In part his popularity stems from circumstances beyond his control: Japan's booming economy; growing pride among Japanese that they have become a world power; the irrefragable Tokyo stock market, and stable currency exchange rates, key for this export-dependent economy.

Critics assert these are the only reasons Mr. Takeshita is popular since he has proposed little and done little since becoming prime minister.

"His way of handling things is by doing nothing," said one of those critics, Masashi Ishibashi, a Diet member and former head of the Japan Socialist Party.

Government officials concede there have been only modest domestic initiatives, such as steps to stem the phenomenal rise in Tokyo land prices and increased



Noboru Takeshita: His supporters maintain he is biding his time until a consensus emerges.

spending on public works, from parks to new roads, in an effort to expand Japan's domestic economy. The major domestic thrust of the Takeshita cabinet, and its major test, is expected this summer when the Japanese Diet is scheduled to consider the issue of tax reform. Until that is out of the way, government officials said, Mr. Takeshita will not take on other major domestic issues.

Two of Mr. Takeshita's predecessors as prime minister, Mr. Nakasone and Masayoshi Ohira, tried and failed to reform Japan's outdated tax system. Diet and LDP committees have been debat-

ing the tax system and possible changes for months. While Mr. Takeshita has said tax reform is necessary he has yet to commit himself to any specific approach. Supporters maintain that he is playing the role of master politician, biding his time until opponents have worn themselves out, at which point a consensus will emerge that he can support and that will win.

"For Takeshita, tax reform is a very important test," one high-ranking government official said recently. "That is why he is being cautious." On the international

front, there has been more action over the last six months.

Mr. Takeshita, eager to counter the image that he is weak in the foreign policy area, has traveled frequently, most recently to Europe. On these trips he has been articulating a new, more active international role for Japan, one commensurate with its new economic power.

In terms of Japan's relations with the United States, Mr. Takeshita, like all his predecessors since World War II, has declared good relations his primary foreign policy goal and has tried to soothe the recent rancor in the relationship.

In the last seven months, the Takeshita cabinet has resolved a long-standing dispute over foreign access to Japanese public works projects, agreed to pick up a greater share of the cost of basing U.S. troops in Japan, and has begun chipping away at its trade surplus as demanded by the Reagan administration. Nonetheless, trade friction with the United States remains high and has become more severe recently over Japan's unwillingness to liberalize its orange and beef markets as U.S. trade negotiators say Japan promised several years ago.

The farm lobby, which is extremely powerful in Japan, has vehemently opposed opening those markets. While most politicians and government officials privately acknowledge that liberalization is inevitable and will benefit Japanese consumers, the Takeshita cabinet so far has shown little flexibility on this issue. Mr. Takeshita himself has expressed few public opinions on the issue except to say he would like to see the issue resolved bilaterally and as soon as possible.

U.S. trade officials, meanwhile, say that the beef and orange issue is probably just the first of many difficult trade problems likely in the next couple of years. U.S. and Japanese trade negotiators reached an agreement last Monday to end gradually Japan's restrictions on beef and citrus imports, as the United States has been demanding for years.

"The easy ones have all been solved and only the tough ones, the politically difficult ones for Japan are left," said one trade official. "The real question will be whether Takeshita, who is supposed to be such an adept inside player, can handle it."

MARGARET SHAPIRO is a Washington Post correspondent based in Tokyo.

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Restructuring ■ A Washington View

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Experts Fear Economy May Be Overheated

By Andrew Horvat

TOKYO — The Japanese economy performed beyond all expectations in the fiscal year ending March 31. The gross national product grew at a faster rate than any time in the previous decade, and many analysts are predicting that the boom will continue.

At the same time, a number of pan's export-oriented industries, which suffered in two previous years of the sudden appreciation of the yen, reported high profits. Having shifted manufacturing overseas, these firms were supplying the U.S. market as well as their own domestic markets in Asia's newly industrializing countries, or NICs.

But expert opinion is divided about the long-term implications of these changes. Government officials say that the restructuring of the Japanese economy as envisioned in a report by the former prime minister, Yasuhiro Nakasone, in April 1986 is proceeding at full speed and that the Japanese trade surplus, which has been a source of diplomatic friction that it has been for the last 15 years.

Analysts in the private sector, however, warn that the economy is beginning to overheat and that recent action taken by the Bank of Japan points to official concern about inflation as a result of increasing commodity prices and excessive growth in money supply.

In the meantime, businessmen appear to be optimistic that the boom triggered by last year's supplementary budget is here to stay, at least for a while. This latter view is shared by a number of foreign observers.

"The Japanese economy is now the best performer of any in the OECD," said an economist at a Western embassy here. Perhaps the only major source of uncertainty is the outlook of the U.S. economy. "A downturn in the U.S. would mean a downturn not only for Japan but also for the NICs where Japanese industries have built factories to supply the U.S. market," the economist said.

According to figures released by the Economic Planning Agency for the fiscal year ending March 31, the GNP grew by 4.9 percent, far outpacing the 3.7 percent target set by the government last year. Planners had assumed that domestic demand would grow by 5 percent but that external demand would be minus 1.3 percent. Instead, personal spending and capital investment pushed up domestic demand while exports too, were somewhat less negative than had been expected.

The figures for the last quarter of the fiscal year were nothing short of astounding as the Japanese economy recorded its fastest growth rate in 10 years. The GNP grew by 2.7 percent between January and March from the preceding quarter, expanding at an annual rate of 11.3 percent. The last time the Japanese economy came close to that rate was in the spring of 1978 when the GNP expanded by 11.7 percent on an annual basis.

Other figures released by the Economic Planning Agency for the 1987 fiscal year were no less impressive. Personal spending was up 4 percent, capital investment by 10.1 percent, housing by 23.9 percent and public works by 10.8 percent. Housing grew by the highest rate in 24 years. Public works were the most active since 1978.

But while front-page headlines proclaimed prosperity, the inside pages of Japan's financial press have carried items suggesting that



Shoppers at the Akihabara electronics market.

the economy may be performing a little too actively.

The Bank of Japan is reported to be worried about the rise of commodity prices, notably that of ethylene. A basic petrochemical raw material, ethylene was in oversupply until 1983 when the Ministry of International Trade and Industry stepped in, creating what is known as a "depression cartel."

But as plants were mothballed, prices went up. With the industry operating at 98 percent capacity, the Bank of Japan asked MITI to persuade refineries to increase output to bring down prices.

The move appears to be a first step by the central bank to ward off inflation. David Gerstenhaber, an economist at Morgan Stanley's Tokyo office, says he expects the Bank of Japan to "try to nudge interest rates upward over the next few months by guiding interbank loans slightly higher." Mr. Gerstenhaber is among those who believe that the bank is likely to raise the discount rate, sometime this autumn. The reason for the move is a reported concern at the central bank that, at 11.4 percent per year, the money supply is growing too quickly.

Although no one at the central bank will go on record about fears of inflation, the U.S. Council of Economic Advisers sent a message to the Economic Planning Agency in May warning that a sharp increase in the Japanese money supply might force the Bank of Japan to tighten credit, resulting in a downturn in financial and foreign exchange markets.

While the consumer price index has remained stable for more than a year, the Economic Planning Agency does not include the cost

of land or housing when compiling consumer price index figures.

Although land prices have begun to come down in the past few months, in at least one Tokyo ward land values went up more than 100 percent last year. Prime Minister Noboru Takeshita has tried to offset spiraling urban land prices with a plan called "revitalization of home towns," which consists of the relocation of government offices to outlying districts.

The high cost of housing has popularized two expressions: "new rich" and "new poor." The former are those who have spent all their money on buying a house and cannot afford anything else, while the latter have given up buying property and are living well, taking trips abroad and purchasing luxuries.

Last year, some 7.5 million Japanese went overseas — 10 percent more than the year before. Foreign luxury goods, especially high-priced cars such as BMWs and Jaguars, enjoyed unprecedented popularity.

But in spite of the visibility of such luxury imports, the Japanese trade surplus is far from being rectified. Short of a recession in the United States, it is unlikely that the Japanese trade surplus will decline appreciably in the foreseeable future.

But while excess liquidity, fears of inflation and an upsurge in exports may cause headaches for government planners, Japanese businessmen are generally in a buoyant mood.

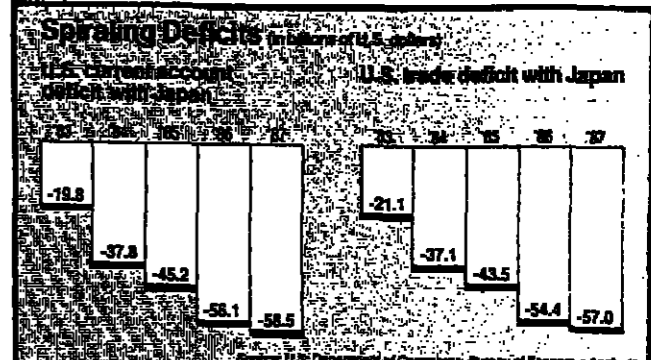
Key to Trade Tensions: Try Understanding Japan

By Clyde V. Prestowitz Jr.

WASHINGTON — By all the conventional economic wisdom of the West, Japan should be worried. The dramatic fall of the dollar and the rise of the yen over the past three years were supposed to blunt its export-led economic growth and drastically reduce its trade surplus.

During a recent trip to Tokyo, however, I found the Japanese more confident than I had ever seen them. Stimulation of the domestic economy has made it boom, and the age-old sense of vulnerability and dependence on imported raw materials and export markets has largely disappeared.

Indeed, the only concern I found was over a new surge in exports, which Japan's economists are predicting will result in a larger rather than a smaller trade surplus.



COMMENTARY

and a renewed round of trade frictions. One prominent industrialist told me that his company has cut its costs so that it can compete with the yen at 90 to the dollar, the rate to which he expects the dollar to fall over the next year or two.

This experience not only confirms the axiom that with regard to Japan the experts are always wrong, but raises obvious and pressing questions. If not the strong dollar, then what are the causes of the persistent U.S.-Japan trade deficit? Can it be managed down or are trade frictions destined to persist?

A FAVORITE scapegoat is American managers. They are too short-term oriented and greedy and don't try hard enough, say the critics. No doubt there are some managers who could do better, but the argument would be more powerful if European or Asian managers were doing demonstrably better than the Americans in dealing with Japan.

Such, however, is not the case. The apparent recent surge in European exports to Japan is largely a matter of currency adjustment. In fact, one of the biggest topics in the European Community today is how to keep the Japanese out when 1992 puts an end to protection in Italy and France. To be

sure there has been a surge of exports from the Asian newly industrialized countries (NICs) to Japan, but that appears to have nothing to do with Asian management since the bulk of it is due to the decisions of Japanese companies to move certain component production offshore.

The fact is that the U.S. trade deficit with Japan is largely the result of the interplay of Japan's industrial policies and highly structured society with the relatively open and loosely organized American economy. In effect, in lieu of an American industrial or trade policy, Japan's policies and national proclivities have molded the U.S. economy so as to produce a structural deficit.

When the U.S. government sought to impose sanctions on Japan last March for violating the U.S.-Japan agreement on semiconductors, it made a startling discovery. The ideal imported product on which to place a retaliatory tariff is, of course, one which is in abundant supply domestically so that the sanction will hurt the foreign producer without causing harm to domestic users of the product. The U.S. government found that in the case of Japan there are very few such products.

Such things as VCRs, ceramic packages for semiconductors, lead frames, certain kinds of memory chips and a host of other products are simply no longer made in the United States. In the case of these kinds of items, rather than alleviating the falling dollar actually exacerbates the trade deficit because it means paying twice as much for products that must be used and for which there are no readily available substitutes.

In the 1970s, the demise of the U.S. television industry in the face of a concerted effort by Japanese industry and government was

thought in the United States to be an isolated trade dispute of no great significance beyond the industry. In fact, however, it paved the way for today's Japanese monopoly and enormous trade surplus in VCRs.

THESSE structural development cannot be easily reversed. Even if, theoretically, the weak dollar makes production in the United States less expensive, the requisite skills, parts supplies and process technology are not there. Thus, even a dramatic change in exchange rates has little effect in many areas.

Structural and societal differences also operate to retard penetration of the Japanese market despite the exchange rate fluctuations. In the United States, it is thought proper that business be done on the basis of the best offer, not the longest term relationship. Indeed, an immigrant society could not operate any other way.

In Japan, however, the major corporations, such as Toyota and Matsushita, work with a tightly knit network of suppliers and dealers that is based on long-term loyalty cemented by cross share holding and personal relationships.

Until Americans recognize the great difference in Japanese and U.S. economic views and organization and deal with it pragmatically, they are doomed to continue to impoverish themselves in a vain attempt to correct the problem through ever more devaluation.

Clyde V. Prestowitz Jr., a former trade negotiator in the Commerce Department, is a senior associate of the Carnegie Endowment for International Peace.

Japan's Season of 'Initiatives'

Continued from page 7

structure is the most immediate example of this.

But the success of Japan's current drive to internationalize will fully depend on a fundamental decision in the bureaucracy's in-house, some analysts believe, of a stricter adherence to democratic principles. But resistance to its liberalization has a very specific meaning for Japan," said Ito Mikio, a prominent Tokyo business consultant. "Once it comes — and it must, whether we

want it or not — it will deprive the government of much of the power it now has."

Many politicians now view the reorientation of voting power in Japan, which does not currently reflect the enormous demographic shifts in recent years, as the nation's most sensitive political issue. The Liberal Democrats, as well as the opposition parties, are already bracing for the massive political swings that are likely to accompany such change when it occurs.

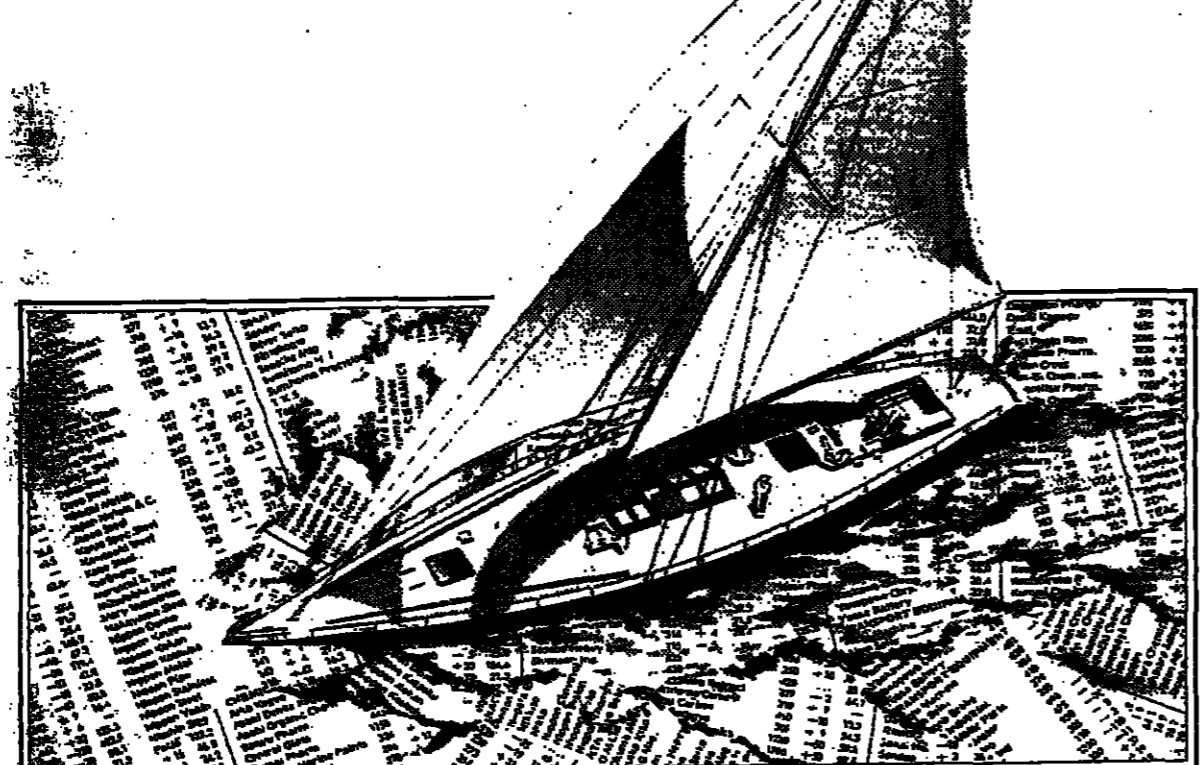
It is unlikely that the issue will be engaged for several years, most

analysts predict. But while reorientation is currently on no one's agenda, it may emerge as among the first significant reforms Japan faces that will not involve external pressure.

"The Japanese have to come to their own realizations from now on," said Mr. Aichi, the Liberal Democratic legislator. "And we have to make greater efforts to reach our conclusions without outside help."

PATRICK L. SMITH is a correspondent for the International Herald Tribune, based in Tokyo.

New Horizons



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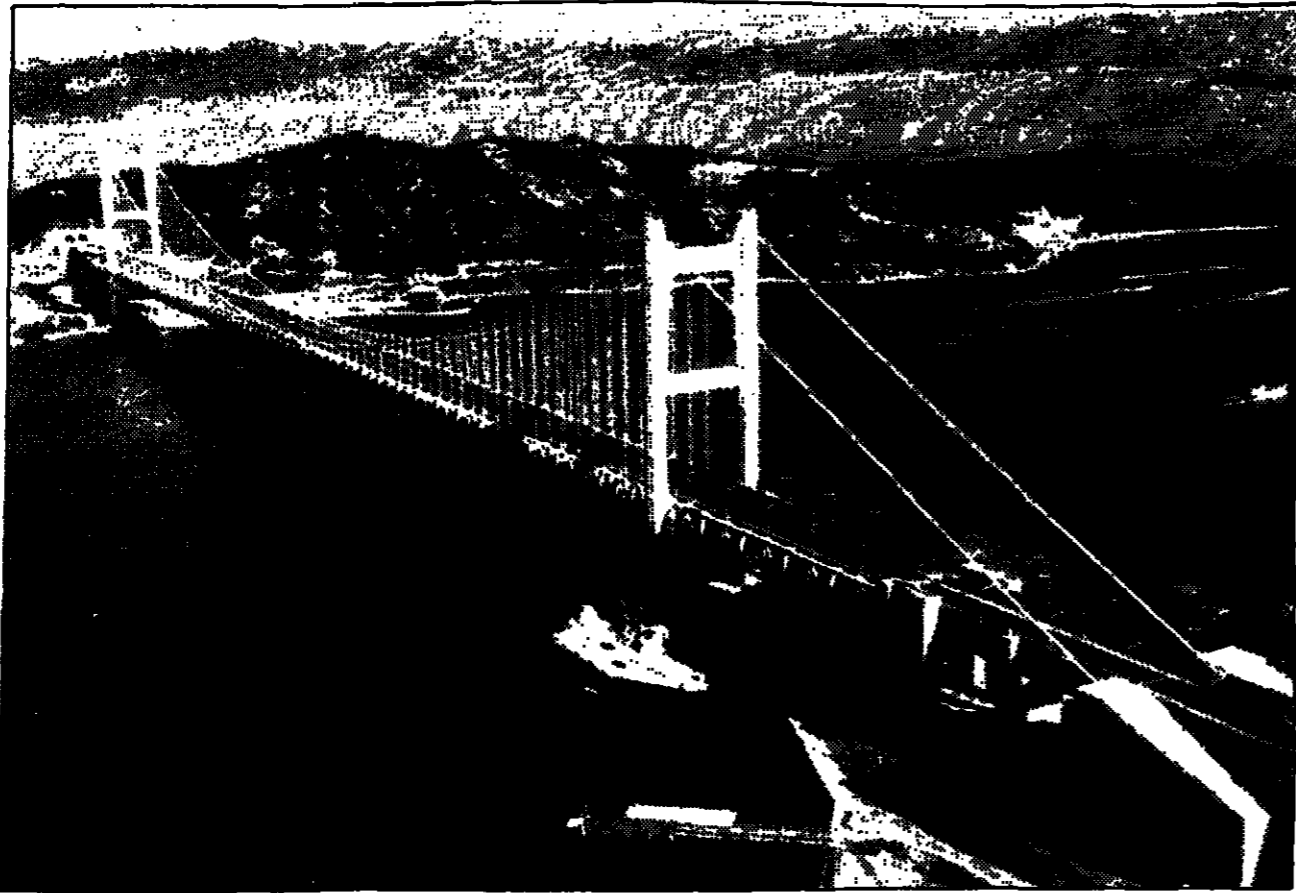
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The Seto Ohashi bridge linking the islands of Honshu and Shikoku.

Support Varies for Fixed Links

By Andrew Horvat

TOKYO — On April 10, Japan fulfilled a long-cherished dream. All four main islands of the Japanese archipelago were linked by land for the first time. Kyushu, the main island to the South has been joined to Honshu since before World War II. Shikoku, the smallest island, and Hokkaido to the north were linked in rapid succession earlier this year.

But whereas on Shikoku, officials spoke in breathless tones of the economic activity sure to be generated as a result of the new Seto Ohashi bridge, up north where the world's longest tunnel was opened to rail traffic less than a month earlier, celebrations were low-key.

The 55-kilometer (34-mile) Seikan tunnel has been portrayed as a marvel of courage and engineering; it is also widely recognized as Japan's greatest financial disaster since the war.

No less impressive than the Seikan tunnel, the Seto Ohashi took \$9 billion, 10 years and 11 lives to build. In Shikoku, however, about the only criticism of the bridge is that trains passing on its lower tier are noisier than originally predicted.

For Shikoku, the land is destined to mean better distribution of local products to the nearby cities of Kobe and Osaka, and higher income from tourism. In spite of expensive tolls on the bridge's upper tier — about \$130 one-way for an 11-ton truck — strawberry shipments from Shikoku to Osaka are expected to jump fourfold from 90 tons to about 400 tons per year. A similar bonanza has been predicted for other Shikoku agricultural products.

Moriya Ishikawa, manager of the Shikoku Economic Federation's research department reports that some 30 resort projects have begun in anticipation of increased traffic from the Osaka-Kobe area. Cut off by sea, Shikoku has remained undeveloped in spite of its relative proximity to the major urban industrial centers of Western Japan. A centuries-old festival featuring a "dance of fools" and an even older 88-step Buddhist pilgrimage continue to attract large numbers of visitors from the Kobe-Osaka area.

"Some people say that the tourism boom may not last long," said Mr. Moriya in a recent interview, "but I believe that increased traffic is bound to result in a general improvement of the economy." According to an estimate by the public corporation that built the bridge, Shikoku's gross domestic product could rise by as much as 2 percent in the next year.

Unlike at Seto Ohashi, where officials expect the bridge to pay for itself at some point in the future, no one connected with the Seikan tunnel likes to talk about return-on-investment — at least not on the record.

One Finance Ministry official in Tokyo was overheard recently comparing the Seikan to the battleship Yamato. The largest ship of its kind when it was built for the Japanese Imperial Navy, the Yamato was sunk in 1945 by American aircraft on the last of its very few missions.

Just like a battleship built for an era of carrier-based aircraft, the Seikan is the best train-tunnel in the world at a time when most Japanese prefer to fly.

The original impetus for the massive project came in 1954 when a typhoon sank five ferries run by the Japan National Railways. More

than 1,400 lives were lost. Construction began in 1964 on a pilot tunnel and work on the main tunnel started in 1971.

In the intervening 17 years, however, planes have proved to be more efficient and less costly in linking Hokkaido with Tokyo. The Tokyo-Sapporo run today constitutes the most heavily traveled air-route in the world.

Expected in 1996 to take 10 years and to cost the equivalent of \$110 million, the Seikan was completed in 24 years for just about 50 times that amount. When financing costs and other incidentals are added, the bill comes to about \$8.6 billion. Debt repayments and operating losses are estimated at \$79 million every year for the next 30 years.

Unlike at Seto Ohashi, where the economic benefits of the link-up are expected to be immediate, Noriaki Matsuzawa, branch manager of the Hokkaido Railway Company, which manages the Seikan tunnel, talks of being able to transfer the lessons learned on the Seikan to future projects in other parts of the world.

"The tunnel is totally surrounded by water," said Mr. Matsuzawa pointing to a computer screen outlining four separate systems of pumps. Were it not for the pumps, the tunnel would fill up with water in 78 hours. Mr. Matsuzawa, an electronics specialist, proudly recalled that a delegation of engineers from the Channel Tunnel had been to see him.

Serving as a model for the Channel Tunnel and being able to apply engineering experience gained on the Seikan, perhaps at Gibraltar or across the Bosphorus, is compensation for many people connected with a project that has gone deeper and deeper into debt from the very first day of its operation.

Nearing the Top as an Aid Donor

The idea that aid can boost the Western alliance is relatively new.

TOKYO — When a Japanese government agency presented Bangkok's Thammasat University with a center of Japanese studies, professors were elated.

Gratitude, however, soon turned to bewilderment when Japanese aid administrators insisted that every book in the new center's 200,000-volume library would have to come from Japan.

"I tried to explain to the Japanese that for the time being what we needed most were books in English because that was the first foreign language of the majority of our students," said a Thai Japanologist.

The university and aid administrators eventually reached a compromise. Professors were allowed to purchase some English-language books.

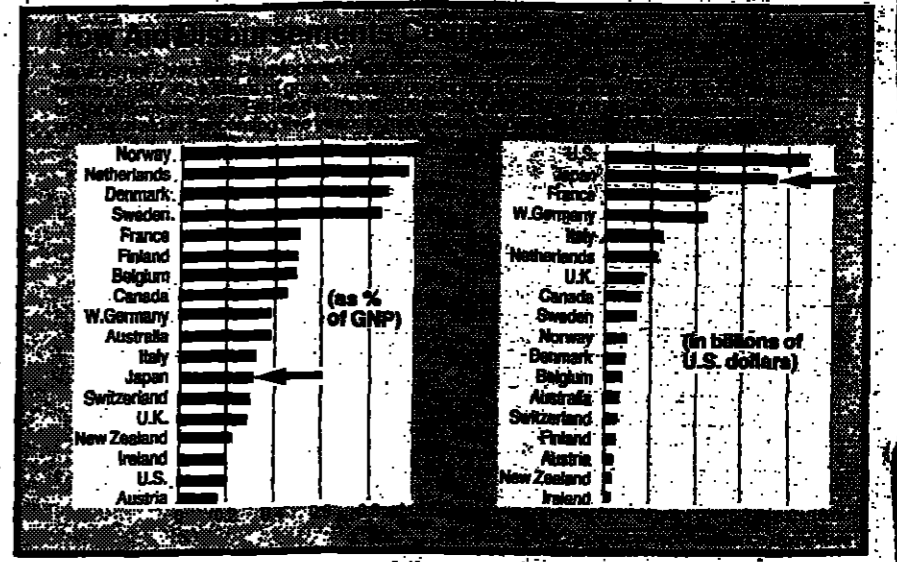
However, all such books had to be bought through Japanese distributors, who would import them to Japan first before shipping them to Thailand.

Although the above incident took place three years ago, it is illustrative of the difficulties the once-poor Japanese are having adjusting to their new role as dispensers of some of the largest sums of aid money in the world.

In the fiscal year beginning April 1, 1988, Japan is scheduled to overtake the United States as the largest single giver of official development assistance, or ODA. Japanese ODA is expected to total 1.55 trillion yen, or well above \$10 billion at present rates of exchange. This compares with \$8.8 billion earmarked by the United States for aid distribution.

Partly to offset its image as a giver of "tied aid" — the kind that forces recipients to buy the products or services of the donor country — the Japanese government recently unveiled a \$500 million program of humanitarian aid to sub-Saharan Africa.

The package is intended to supply African governments with vehicles, medical equipment, and machinery to upgrade water and power supplies. To impress upon critics that Japan is turning a new leaf, the government has obtained the services of Britain's Crown Agents and the United Nations Development Program to act as its agents.



All the same, the sub-Saharan program is hardly representative of Japanese aid in general. As the Yomiuri Shimbun editorialized a few weeks ago, Japanese aid is "considerably inferior in quality compared with other donor nations." In spite of its volume in dollar terms, the grant element in Japan's ODA figure this year will come to about 47 percent, compared with 78 percent for France, 90 percent for the United States, and 99 percent for Britain.

As a percentage of GNP, Japanese aid ranks 12th among 18 donor nations in the Organization for Economic Cooperation and Development. Japan, however, faces some serious hurdles in increasing its aid.

The idea that aid can work to solidify the Western alliance is relatively new in Japan. As a result, the export-promotion element of Japanese aid is still more evident than in the case of most other OECD countries.

Moreover, consensus on the priority ODA should receive in the national budget is yet to be reached. Thus aid is often given in response to outside pressure, rather than to goals established at home.

To begin with, Japan's aid program began as an extension of reparations payments after World War II. In those days, the primary concern of Japanese officials was to use aid to help Japanese exporters.

The influential Asahi Shimbun recently revealed that this attitude is still prevalent among bureaucrats. "For example," it said, "even though loans to lesser developed countries are designated as untied, the bidding is open only to companies from Japan and firms of the recipient nation." As Japanese companies are more competitive, they land such contracts "almost 100 percent of the time."

In all fairness, however, Japan has been

given some mutually contradictory goals to aspire to by the United States. Whereas in September 1987 the U.S. Senate passed a resolution calling on Japan to raise its ODA to 3 percent of GNP — a tenfold increase — Washington vetoed an increase in the Japanese contribution to the World Bank, lest Japan become the number one donor and thus undermine American influence there.

Another problem for Japanese officials is that while Japan is seen abroad as having a huge trade surplus, much of those excess funds are in private hands. That is one reason Finance Ministry officials gave their colleagues at the Foreign Ministry a rough time over aid increases demanded by the latter to make Japan look good at the Toronto summit.

Japanese diplomats were anxious to be able to pry criticism that Japan, a low defense spender, was also parsimonious in its ODA.

It had been the Foreign Ministry's hope to have Prime Minister Noboru Takeshita announce that Japan would increase its aid programs so that by 1992 Japan's ODA budget would reach 0.36 percent of GNP. At present, the figure is about 0.31 percent.

While the size of Japanese disbursements has grown, the number of officials familiar with the needs of recipient nations is still far below that of other countries.

The Japanese version of the U.S. Agency for International Development has 260 officials, of whom about a tenth are stationed overseas. This compares with 5,000 U.S. AID workers of whom one half are abroad.

Andrew Horvat

U.S. Seeks Bond Market Access

By Paul Maidment

TOKYO — Opening up the primary market for Japanese government bonds has moved to the top of the American government's list of markets for which it wants better access for foreign securities houses and banks.

Unlike the United States, which uses an auction system, the Japanese

government has relied mostly on syndication to sell its new debt, which totaled 11.3 trillion yen (\$904 billion) in fiscal 1987. Until 1984, foreigners were shut out of the underwriting syndicates. Even now, they complain that they have barely got a foot in the door.

The syndicates, whose membership varies slightly for long- and medium-term bonds, are composed of nearly 800 banks, insurance companies and securities

houses. Each member's pre-arranged share of the allocation for each issue is determined by the syndicate itself.

But, with each category of financial institution being allocated an overall share which is then divided up internally by its own rights, that gives the big Japanese banks and securities houses considerable sway.

In return, for this near-monopoly and a fixed underwriting commission of 0.063 percent, the Japanese firms that dominate the syndicate have been accommodating to the government over terms and conditions for new issues. Membership of the syndicate has been taken to imply acceptance of supporting new issues in good times and bad. Foreigners, it was suspected, could not be relied upon to behave so patriotically.

Foreign pressure and the Japanese government's own need since the mid-1980s for expanded placing power as it was faced with refinancing the 10-year bonds it had issued to cover its large budget deficits following the first oil shock in 1972-73, is but slowly changing this cozy situation. It was only in 1984 that the first 15 foreigners were allowed into the underwriting syndicates in a small way for short-term bonds.

Their numbers have grown but their role is not much bigger. There are now 30 foreign securities houses in the syndicates. In March 1987, their share of the allocation for the high-volume, long-term bonds was increased, but only to 6.28 percent of the 26.2 percent allocation of the total issue reserved for securities companies.

Salomon Brothers' allotment, which is the largest, was raised to 1 percent from 0.7 percent. Those of First Boston, Goldman Sachs, Jardine Fleming, Merrill Lynch, Morgan Stanley and S.G. Warburg were raised to 0.5 percent. Smith Barney and Vickers got 0.3 percent. Two newcomers, Credit Lyonnais and J.P. Morgan, were allocated just 0.069 percent.

Foreign houses considered this tokenism and sought a switch to an auction system, which the Japanese government has used since 1980 for only the small issues of two-year to four-year bonds.

After complaints about the unfairness of the syndication system from U.S. Treasury officials at the annual bilateral meeting with their Japanese counterparts on financial services, the Ministry of Finance agreed to sell more bonds by auction.

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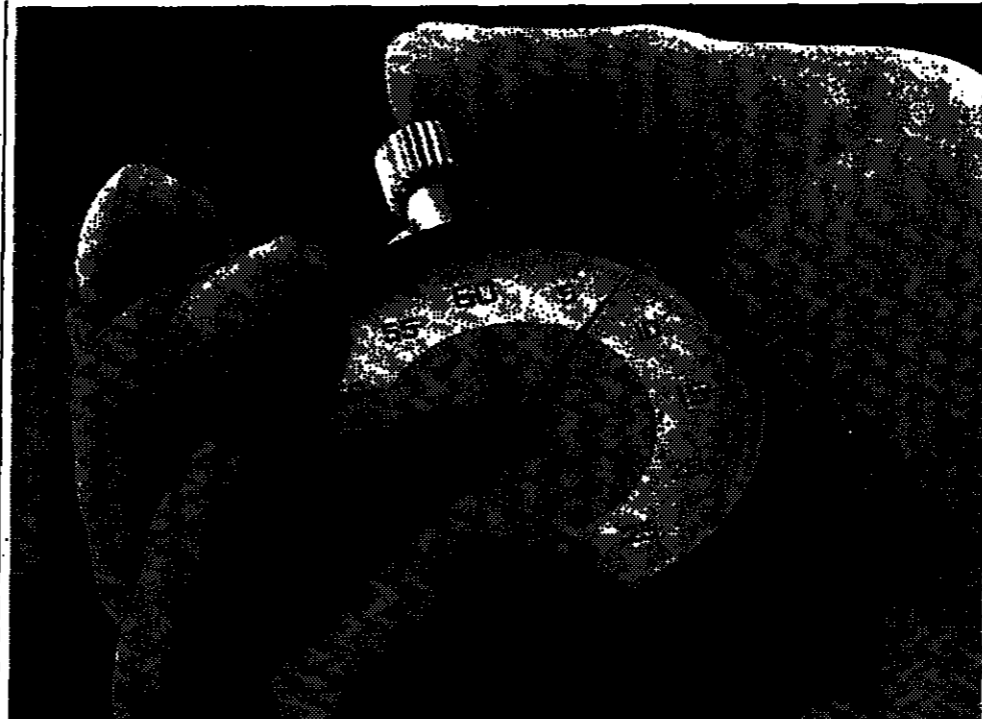
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HP	500	50	250	100	150
Canon	1,500	150	750	300	450
Epson	500	50	250	100	150

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In the face of the impossible

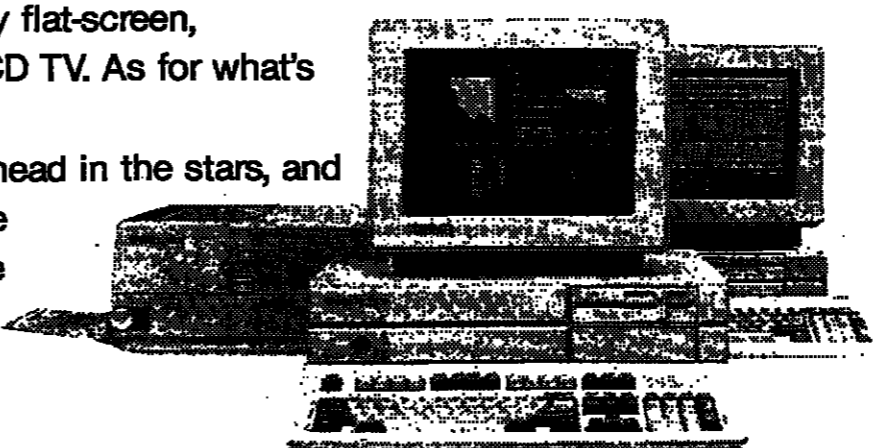
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'Friends' in Tennessee ■ Currency Might

Surplus Spills Over Into U.S.

By Linda Keslar

NEW YORK — Nashville, Tennessee, and Tokyo may have little in common at first glance, but as Japan steadily invests more of its \$83 billion current-account surplus in the United States, sushi bars have become as pervasive as the sound of country music in some Nashville neighborhoods.

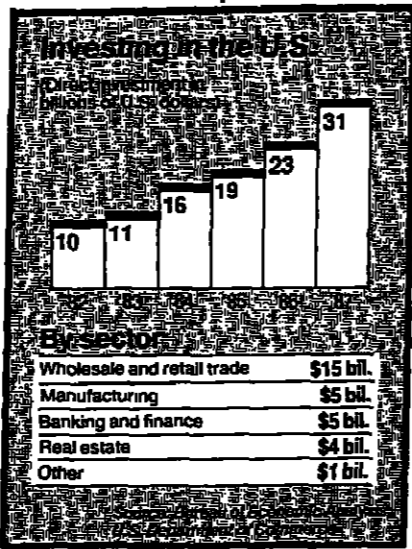
That is because Tennessee is home to about 60 Japanese companies, including Nissan, Toshiba and Kamatzu, and one of many centers of the culture evolving out of daily relations between relocated Japanese managers and American labor. So much so that Kodansha, the largest Japanese publisher, recently distributed a book called "Friends" chronicling Japan-Tennessee ties.

"We thought it would be of interest to an American audience," said Anne Cheng, a marketing associate at Kodansha's New York headquarters. "Our goal is to introduce the East to the West and vice versa."

So far, however, the book is only available in English, a wise move on Kodansha's part, given the growing momentum for Japanese investment in the United States. The Japanese appetite for U.S. assets is reaching new levels, fueled by the high value of the yen in relation to the dollar as well as the huge current-account surplus and a shortage of domestic buying opportunities.

And that is producing worries in the United States, where both policy makers and voters are evaluating the impact of the soaring volume of foreign ownership of U.S. assets.

"The Japanese in some ways have stirred up less political resistance on Capitol Hill than other foreign investors because they have no taste for hostile takeovers," said Robert McCauley, a senior economist for the Joint Economic Committee of Congress. "But there are concerns that the Japanese are coming in, building businesses and taking jobs from people who would have otherwise been working for their U.S. competitors."



In Tennessee, for example, Japanese operations have created 10,000 jobs.

"But you have to take into account the displacement effect," said William Bozzer, a director of communications at Tennessee's state Office of Economic Development. "Yes, we've got new Japanese auto operations, but we've seen U.S. companies close their doors here."

The value of Japanese direct investment in the United States is now worth \$30 billion, nearly triple the level five years ago. But foreign capital is not flowing as freely to Japan.

And that makes some policy makers uncomfortable, since the level of Japanese investment in the United States has been growing at a quicker pace than rivals in Britain and the Netherlands.

Britain remains the biggest investor in the United States, with \$70 billion in cumulative holdings, while the Netherlands ranks second, with \$52 billion.

According to Clyde V. Prestowitz Jr., a former trade negotiator in the Commerce Department and now a senior associate with the Carnegie Endowment for International Peace, the Japanese tend to carefully orchestrate their investments abroad with the government, because of the unique structure of Japanese industry that combines huge industrial firms in close alliances with major banks.

That alliance also gives acquisitive-minded Japanese companies immensely deep pockets, allowing them to pay unreasonably high prices for U.S. assets. Moreover, a strong yen allows a great currency advantage against the dollar or other European currencies.

That is one reason why Bridgestone Corp., the Japanese tire maker, beat out Italy's Pirelli S.P.A. this year in its \$2.6 billion buyout of Firestone Tire & Rubber Co., a bid many investment bankers considered more a show of financial muscle than savvy.

"The Japanese are rarely opportunistic buyers," said James A. Martens, a managing director at Peers & Co., a New York-based merchant bank specializing in Japanese-U.S. transactions. "They set strategic goals and make acquisitions to fit those goals."

Last year, the Japanese bought or built businesses worth \$7 billion, including a \$2 billion acquisition of CBS Records by Sony. Japanese investors also own stakes in U.S. financial institutions, such as Bank America, Shearson Lehman Bros. and Paine Webber.

However, P.J. Johnson, a vice president at Nomura Securities in New York, said, "The Japanese are here to build, not buy into this business." Since Nomura is the world's largest financial institution, with \$27.8 billion in assets, there is always speculation of its hunger for acquisitions.

The Japanese, however, have invested more in wholesale trade operations in the United States, followed by manufacturing and real estate, then banking and financial institutions over the last five years.

While Japanese holdings in U.S. stocks, bonds and treasury securities are estimated at



Nissan worker at a plant in Tennessee.

\$94 billion, Japan's major institutional buyers lost over \$10 billion in two years as the yen rose and bond prices fell.

One big area attracting more Japanese investors than before is real estate, where demand has risen prices by 10 percent or more, bankers say. Japanese own urban landmarks like the Arco Plaza in Los Angeles and the Citicorp building and Chase Manhattan Center in New York, as well as virtually all of Walkiki Beach and a number of California vineyards.

Last year, the Japanese invested in U.S. projects worth \$14 billion, according to Sel-

mon Brothers, while their total U.S. real estate holdings are worth \$2.5 trillion.

"That may seem like a tremendous number, but it's less than 1 percent of the value of total commercial real estate in the U.S.," said David Shuman, the director of real estate research at Salomon's New York headquarters.

Congress is currently re-evaluating the president's veto of the trade package, which includes an amendment calling for greater disclosure requirements for foreign buyers of U.S. assets.

And financiers, such as Felix Rohatyn, partner at Lazard Freres, are calling attention

to the U.S. dependence on foreign capital flows. American companies, he said, are at a disadvantage when bidding against foreign buyers in the United States for tax and accounting reasons.

"Many governments all over the world have policies where, at the very least, domestic companies are on equal footing with foreign bidders," he said. "That's definitely not the case here. And it's time to level the playing field."

LINDA KESLAR is a financial journalist based in New York.

Yen's Strength Against Key Currencies Spurs Buying Spree Abroad

By Marybeth Nibley

LONDON — From championship golf courses in Scotland to luxury high-rises in Hawaii, the Japanese wielding a mighty yen have displayed a penchant for making foreign purchases.

Their acquisitive instincts have been spurred by government-sponsored inducements to spend some of their vast savings stowed away during the four decades since Japan was an impoverished, war-torn economy.

The yen's rise against key currencies has enhanced the attractiveness of overseas investments, particularly dollar-denominated ones. And Japan's overseas investments, whether in real estate, factories, stocks or art, are being noticed.

Take the art world. A sharp escalation in prices paid at auction for paintings in recent

years has been linked to keen Japanese interest. A boom in art buying by the Japanese began around mid-1986 when dollar-based auction prices began to look cheap.

In real estate, aggressive buying by Japanese corporations and entrepreneurs has provoked protectionist, even xenophobic, attitudes in some places. In the United States, real estate agents say, the Japanese have helped push commercial and residential property prices to unprecedented levels in some areas.

In Hawaii, the mayor of Honolulu, Frank F. Fasi, proposed legislation aimed at preventing Japanese investors from driving up land values and pricing local parties out of the market.

The reason for all the attention targeted on the Japanese is simple. For years, Western economists have been saying that Japan would become the powerhouse of the industrialized world. Now that in some respects it appears to have assumed this role — it has the world's

second largest gross national product after the United States — economists are wondering what it will do next.

"The Japanese seem to have their economic act together better than anyone else," observed Paul Chertkov, director of economics at Security Pacific Hoare Govett in London.

ONE indication of this is the resilience of Japan's export sector to the appreciation of the yen. Export-oriented industries have been able to adjust to an exchange rate that, according to conventional thinking a few years ago, was expected to destroy their international competitiveness.

Japanese manufacturers have coped with the yen's rise from 240 yen to the dollar in 1985 to about 125 yen recently.

The process has not been painless. It has

necessitated restructuring or the "hollowization" of Japan's industrial base.

The adjustment was made possible by good industrial relations and flexible working practices. Profits were squeezed, opportunities for using cheaper imported raw materials and components were exploited and production was moved elsewhere to take advantage of lower cost labor.

Latest figures show a growth in Japan's exports of merchandise despite a narrowing of the country's trade surplus over the past 13 months. Some of the export growth can be explained as a short-term phenomenon, involving Japanese companies shipping out machinery for their own new plants abroad and U.S. companies importing Japanese capital goods as they rebuild capacity.

But the rest of the growth may reflect a renewed trend of rising Japanese exports, economists say. Shipments of Japanese goods grew 10.2 percent in May from a year earlier to \$20.5 billion, while imports rose 26.7 percent to \$15.45 billion, according to recent government figures.

Meanwhile, many economists are predicting that the yen will strengthen against the dollar and the West German mark in the near future, after about six months of relative stability, as Japan's economic activity outpaces that of its major trading partners.

Projections call for one dollar to fetch from 110 to 115 yen in the next three to six months. Brokerage James Capel & Company recently predicted that the yen will rise next year, averaging about 105 yen to the dollar.

Currency analysts who sometimes talk about exchange rates having "psychological barriers" that would be difficult for various currencies to break have been reluctant to assign such a level to the dollar-yen relationship.

David Osman, an economist at James Capel, said that a sustainable dollar-yen rate is unlikely for some time and probably not before the dollar hits 100 yen.

Against the Deutsche mark, the yen will post a much smaller advance, rising to about 70 yen to the mark from a recent level of 72 to 73 yen. Although a higher yen will hurt Japanese exporters, it will increase the incentives for capital-rich Japan to send its money offshore.

The rate at which Japanese multinational corporations have been adding to their foreign direct investments has increased rapidly, triggered by a fear of protectionism. The Japanese reasoned that they could silence some complaints about their massive trade surpluses by setting up foreign operations, thus creating jobs for foreigners.

In a paper published by the Royal Institute of International Affairs, Stephen Thomson argued that Japan could become the biggest direct investor by the year 2000, replacing the United States.

"This means that as its trade surplus shrinks, Japan will have a rising stream of investment income," Mr. Thomson said.

Although some investing is done to circumvent protectionism, there is abundant evidence that Japanese companies are making long-term commitments. The evidence will probably grow quickly in Europe as the Japanese pre-

pare for the consolidation of the European Community in 1992.

"The Japanese will be very quick to seize on 1992 and make the most of it," said Brian Bridges, head of the Royal Institute of International Affairs's East Asia program. "It's clear that the Japanese are sitting down and thinking about what 1992 means for them in a way that many British companies are not."

One thing economists find interesting in contemplating Japan's more distant future is the demographic changes projected for the country.

The aging of its population is occurring at a rapid rate while population growth is slowing. The ratio of people aged 65 or over to the whole population rose to 10 percent in 1985 from 7 percent in just 15 years. (In the United States, a comparable redistribution took twice as long, according to Japanese government statistics.) The proportion is expected to reach nearly one-quarter by 2043.

Economists wonder whether these changes will effect savings patterns as the country plans for a time when fewer wage earners will live with more people past working age.

However, it would be foolish to think that Japan could have a savings shortage. Analysts estimate that the pool of Japanese savings is bigger than that for all of Western Europe.

MARYBETH NIBLEY is a financial journalist based in London.

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Banks Are Facing Transformation as They Cope With Deregulation

By Paul Maidment

TOKYO — Japan's city banks — its 13 national commercial banks — found it easy to grow big and fat. Becoming lean and mean is harder going. By assets, the top five of the world's biggest banks are city banks: Dai-ichi Kangyo Bank, with assets of \$266.9 billion at the end of March; Sumitomo Bank, with \$250.6 billion; Sanwa Bank, \$244.1 billion; Mitsubishi Bank, \$227.5 billion; and Sanwa Bank, \$218.5 billion. Two other banks, the farm cooperatives' bank, Nominchukin, eighth at \$184.9 billion, and the Industrial Bank of Japan, 10th at \$177 billion, which lends long-term to industry, also the top 10 of the world's banking giants. But in terms of profitability, Japanese banks are world midgets. Their returns on assets, at 6 percent to 0.7 percent, is way below that of their international rivals, except perhaps French banks. Now, they are trying to fit those assets into profits.

For 30 years after World War II, they had no need to. Japan's highly regulated and compartmentalized financial system channeled cheaply a huge savings of individuals into the banks. They loaned on to rebuild capital-starved industry. With lots of cheap deposits to lend,

Japanese banks became masters of the low-margin, high-volume corporate loan. When Japan became the world's biggest capital exporter in the 1980s, its banks' steady international expansion, on the back of the country's postwar economic success as an exporter, turned into an explosion. The boom in the yen against the dollar since 1985 has made their assets reverberate even more. These have increased by 80 percent since 1983 in yen terms but by 200 percent in devalued dollar terms.

Most of the world still looks at itself in dollar terms, so foreign acquisitions that Japanese banks were dumping financial services at a loss and making cut-rate loans have become larder. Demands that Japanese banks comply with more demanding capital adequacy ratios to choke back the growth in their international lending was one consequence.

To comply with the Bank of International Settlements' proposed new capital-adequacy ratios, the Ministry of Finance has told Japanese banks to raise their net worth to 4 percent of assets by 1990 from around 3 percent now, and to 6 percent on a secondary measure under which banks can count 70 percent of the unrealized gains on their considerable securities portfolios as capital.

Under the BIS guidelines, they will have to meet a capital requirement of 8 percent of risk-

The Japanese banks are turning their attention to profitability and away from growth for growth's sake.

adjusted assets by 1992, for which they will only be able to count 45 percent of unrealized securities gains.

Japanese banks should get there quickly. They have already started raising the necessary new capital and shifting assets off their balance sheets. But complying with the BIS guidelines is just one reason that the Japanese banks are turning their attention to profitability and away from growth for growth's sake.

Deregulation of their home market means the banks can no longer count on a ready supply of cheap deposits. Interest-rate ceilings are being phased out and the competition for personal savings from securities houses and insurance companies is intensifying.

The abolition of the steep system of tax breaks for small savers' deposits this spring bit

the banks particularly hard. Around 28 percent of the banks' funds came from market-rate deposits in 1987, against only 9 percent in 1980. Within a couple of years, it is likely that all deposit interest rates will be deregulated.

This is pushing up the cost of funds. At the same time, Japanese banks have found what they can charge for loans falling as interest rates have fallen worldwide and have been deliberately pushed down further in Japan in the cause of macroeconomic international coordination.

In the financial year to March, for 11 out of the 13 city banks, the average cost of their deposits was higher than the interest rates at which they could lend the funds, according to a study by Han Ong of S.G. Warburg Securities. Mitsubishi Bank and Kyowa were the only two

he could spot with positive spreads between their average deposit and loan interest rates.

At the same time, the banks have had to scramble for new customers because their long-standing big corporate borrowers have deserted them for the equity markets, especially the Euromarkets. This has meant that the banks are searching for unfamiliar and riskier customers among small firms, individuals and property developers at home and Third World countries abroad.

They have had some success. The proportion of their loans to small businesses has been rising steadily. For Sanwa, Mitsubishi and Sumitomo, loans to small businesses now account for two-thirds of their loan portfolios.

Consumer lending, too, has mushroomed, due to Japan's buoyant domestic demand. The city banks' outstanding lending for individuals' installment repayments has risen from 595.1 billion yen (\$4.76 billion) in the first quarter of 1986 to 1.96 trillion yen in the first quarter of this year; for housing, the value of loans outstanding rose from 8.52 trillion yen to 14.08 trillion yen over the same period.

Lending to the property industry rose from 17 trillion yen in January 1986 to 27 trillion yen by July 1987. It has now leveled off in response to the authorities' request to cut it back be-

cause it was fueling Tokyo's speculative land boom. However, the reported level of loans to property companies, which account for 10 percent of the banks' outstanding loans, understates the true level of lending to the property sector by perhaps as much as half.

The new customers that the banks are courting are potentially more profitable but also worse credit risks than their old industrial clients. These blue chip firms, along with the Japanese banks' relatively restrained lending to the Third World, were a main reason that Japanese banks have had such a low proportion of nonperforming loans compared to their U.S. and European counterparts.

Coping with market deregulation is harder than coping with interest-rate deregulation. Extraneous influences can more easily disrupt these new markets. Operating in them requires a different sort of management to that which has helped Japanese banks grow big. It needs to be more accommodating to risk.

How well the banks manage the transformation will hold the key to how trim and competitive they become.

PAUL MAIDMENT is The Economist's Tokyo bureau chief.



Downtown Tokyo, where land prices are at a premium.

Foreign Brokers Prepare for Rough Times

By Andrew Horvat

TOKYO — In other countries, the induction of a new member into a stock exchange is done with the casualness of a handshake. Not so in Japan. The opening on May 22 of the Tokyo Stock Exchange to 16 foreign brokerages last month was accompanied by the presentation of badges and certificates and the clapping of hundreds of hands in unison 20 times — to clear the air of evil spirits.

Perhaps the festivities were in order. After all, the foreign firms had just spent the equivalent of \$13.5 million each in fees and incidentals, an amount nearly 30 times the cost of a seat on most American and European exchanges.

The induction ceremony also chimed years of pressure by Western governments on the Japanese Finance Ministry to open probably the most thoroughly closed major securities market in the world.

Hardly a month ago, when Japan accounted for more than 40 percent of the value of stocks traded in the world, a mere six foreign firms were permitted to trade on the Tokyo Stock Exchange floor. In March last year, the British government threatened to retaliate against Japanese financial houses in London unless the Tokyo exchange was opened to more foreign firms.

And yet, even before last month's ceremony, many foreign brokers knew that the 16 foreign firms were headed for difficult times. With the exception of their first trading day when newcomers are traditionally given plum deals, the total turnover of all 22 foreign brokerages has come to less than 3 percent of trading on the Tokyo exchange. Of those 22, 16 account for less than 1 percent of the exchange's daily trade.

As an analyst working for an American house said, "I suspect that a lot of the foreigners are trading on their own account so their real trading is even less" than the percentages cited above.

With the exception of Solomon Brothers, which hired a large and aggressive staff before obtaining its seat last month, few foreign brokerages have been able to gain

access to major Japanese institutional investors.

But despite the anticlimax, two British houses, James Capel and Barclays de Zoet Wedd, are still lobbying for seats on the exchange and their absence from last month's list of successful entrants constitutes a diplomatic irritant in British-Japanese relations.

Although threats of retaliation are no longer heard, Lord Young, Britain's trade secretary, made a point of telling his Japanese hosts during a visit earlier this year that he was "disturbed it has taken such a long time for British firms to get seats here when we've welcomed foreign houses into the City."

Ken Lucas, director general of James Capel Pacific, said that his company's volumes "justify a seat on the exchange." According to Mr. Lucas, among foreign brokerages given seats last month many had far less volume than his company.

Officers of the two firms passed over last month have argued that their exclusion was based on a bureaucratic formula that allowed the Tokyo exchange to admit six U.S. and four British firms along with two each from West Germany, France and Switzerland.

Undaunted by their failure to get seats, both Capel and BZW are expanding their Tokyo staff, as are

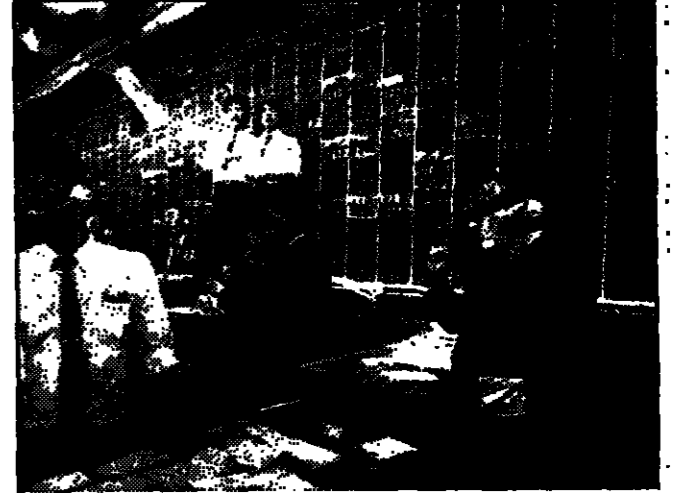
almost all major foreign financial firms here.

According to a Japanese business journal, in the past seven years, hirings by foreign securities companies in Tokyo went from 400 to 3,500. In spite of salaries and benefits that go as high as \$250,000 per employee, the journal predicted that another 1,500 persons would find employment at Tokyo branches of foreign firms in the next four years.

For an industry that prides itself in hard figures, companies have laid out huge sums to locate in the world's most expensive city for what are basically intangible reasons. No employee of a foreign brokerage interviewed said his firm was looking for immediate return on its \$13.5 million.

As one analyst employed by a British firm that gained membership last month said: "Being on the TSE is like getting your bona fides." According to the analyst, membership makes it easier to gain entry into the offices of Japanese firm managers, and, in a country where graduates of elite universities are reluctant to seek employment with all but a few foreign companies, a seat on the exchange translates into an ability to attract competent staff.

But not all the benefits are abstract. Ed Merner, director of



Traders at the Tokyo Bourse.

Schroder Investment Management Japan, suggested that there is a niche that the foreign brokerages can fill.

"The smaller Japanese institutions have welcomed the foreign brokerages because the newcomers pay attention to them," he said.

In Tokyo, where four big Japanese houses wield tremendous influence on the market, smaller Japanese institutions have little clout. Although analysts predict that a number of foreign brokerages on the Tokyo exchange might not last out a long bear market, Mr. Merner stressed that the future for such firms is not necessarily bleak. Japanese institutions, including, perhaps, banks, will no doubt be willing to pay huge sums for a company with a seat on the Tokyo exchange.

Trust Banks Boost Profits

By Darryl Gibson

TOKYO — Land trusts are becoming one of the most attractive new investments in Japan for wealthy owners who lack the guts or expertise to develop their land themselves.

The trusts, in which one of the ten Japanese trust banks takes title to a property, arrange zoning, hire architects, contract bidders, find tenants and manage a new asset for a fee.

The basis of the trusts lies in Japanese land prices, and these are infinitely high.

In Tokyo — and most of the rest of the country — a square meter of land can be worth hundreds of thousands of dollars, but selling a asset, unless the proceeds are vested in new land within a year, subjects the owner to high taxes at reduce the final value of the net. Hence, the land trusts.

Because the value of even the most modern office building is unlikely to be worth more than 20 percent of the land value, the trust banks are willing to take the land trust for a fee — generally 10 percent of gross rents — and look after all development, construction and management from that day until the trust, generally for

20 years, expires and the assets revert to the trustor or beneficiary.

The banks also arrange financing in most cases, another long-term earner for the banks, and end up with their own profit as well as returning income to the trustor or beneficiary, usually within two years of the trust's inception.

Chisai Tanuma of the land trust department of Mitsui Trust and Banking said the bank handled more than \$200 million in land trust construction alone last year.

Because the landowner does not have to relinquish ultimate ownership of the asset, the market is growing by leaps and bounds, and small companies and individuals who lack the liquidity to improve their holdings on their own are embracing land trusts with alacrity, Mr. Tanuma said.

Although the inflation in land prices in Tokyo has eased for the moment, other parts of the country are still appreciating and land trusts are moving beyond the capital region into the outskirts as well.

A recent land trust in less-developed Kyushu incorporated a hot spring into a new development, breaking yet more new ground for the fledgling land trust industry.

Technically, the business is not limited to the seven Japanese trust banks — Mitsui Trust and Bank-

ing, Mitsubishi Trust and Banking, Sumitomo Trust and Banking, Yasuda Trust and Banking, Toyo Trust and Banking, Chuo Trust and Banking, and Nippon Trust and Banking. But Mr. Tanuma said foreign trust banks lack expertise in Japanese trust and real estate ventures, severely limiting their participation.

There is no legal bar to foreign trust banks entering the land trust business in Japan.

But the same lack of expertise that keeps foreigners out of the Japanese land trust business precludes the Japanese trust banks going offshore with their product.

"We don't have the knowledge of foreign real estate that we would need, but more importantly, foreign land is often worth much less than the building on it, so the basic underlying value in land we have in Japan is not available abroad," he added.

But in Japan, where land in central Tokyo is worth astronomical sums, forming land trusts is becoming a viable way for individuals, small companies and even public entities who hold tracts of land to tap the potential of their solid assets.

DARRYL GIBSON reports for The Canadian Press from Tokyo.

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A mere decade ago, Tokyo's Byzantine business world baffled international visitors. The learning process usually involved several trips and privileged access to the foreign grapevine just to master the basics such as what—or what not—to do and where to stay.

Tokyo has come a long way since then. Thanks to the strong yen and Japan's increasing internationalization, a plethora of information has become available.

Where to Stay
Tokyo's central business districts are well-served by the Imperial, Hotel Okura, the Tokyo Capitol Hotel (formerly the Tokyo Hilton), the New Otani, the Akasaka Prince and the Palace Hotel. The new Tokyo Hilton, Keio Plaza and Century Hyatt are preferred by visitors with business in the city's growing Shinjuku section. And for business travelers' families, the Sheraton Grande Tokyo Bay Hotel and the Tokyo Bay Hilton International, which opens in July, are close to the attractions of Tokyo's own Disneyland.

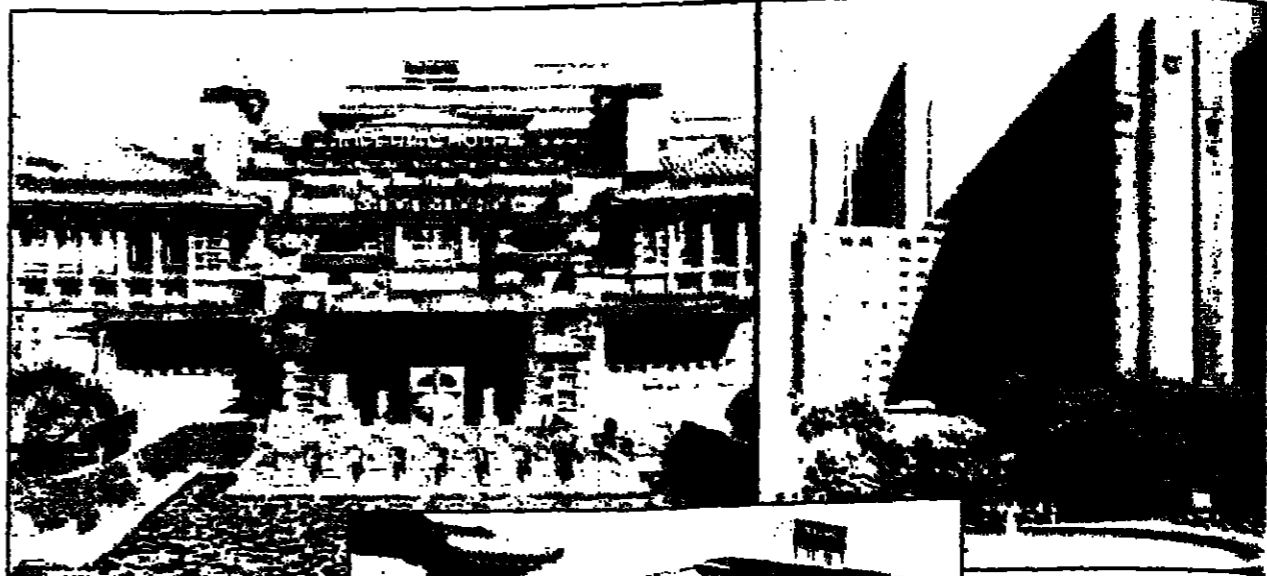
BUSINESS TRAVEL GUIDE

JAPAN

away from the Ohtemachi subway station, a five-minute walk from Tokyo Staro and a ten-minute taxi ride to the Tokyo City Air Terminal. Set in the heart of Tokyo's central financial district, this tranquil oasis overlooks the grounds of the Imperial Palace and is given high marks by frequent travelers to Tokyo for com-

fort, security and service. Opened in 1960, it offers some 400 spacious rooms and suites, seven restaurants, three bars and a 20-store shopping arcade. Those in the know are the hotel's summertime air-conditioning system as one of the best in the city.

The Imperial, Japan's first Western-style hotel, is going ready to celebrate its centenary. Opened in 1890, it has been re-



built and enlarged three times, including the internationally renowned Frank Lloyd Wright Mayan-like version. In November 1967, the famed "Old Imperial" closed its doors for the last time and, in March 1970, the present Imperial made its debut.



The old and new style Imperial Hotel (top); Tokyo's Palace Hotel overlooking the Imperial Palace moat (center); and three handy guides for business and pleasure.

weekly English-language overview of the Japanese economy, published by the Nihon Keizai Shimbun, Japan's equivalent of the Wall Street Journal. Its pages are compiled by Japan's largest, most authoritative economic data publishing group, printed in Tokyo, New York and San Francisco, and read worldwide.

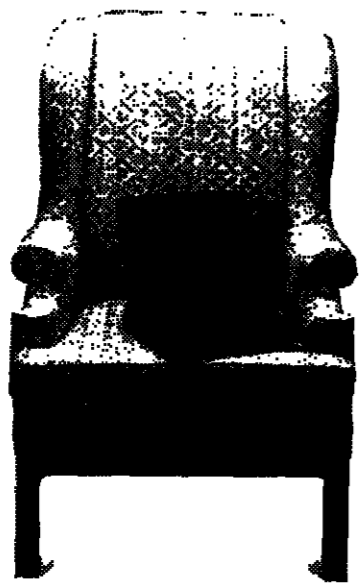
The Japan Bond Research Institute, a subsidiary of the publishing group, offers a weekly Tokyo Financial Letter. With in-depth coverage and analysis of Japanese financial developments, it is printed simultaneously in Tokyo and New York on Monday. *Nikkei Telecom*, *Japan News & Review*, an English-language information service, provides international computer access to Japan's most comprehensive business and economic database, including air and bond quotations, foreign exchange and short-term market rates, financial data on the companies listed on the Tokyo Stock Exchange, and news from the *Nihon Keizai Shimbun*, *Japan Economic Journal* and *Japan Times*.

Tokyo Business Today and *Business Tokyo* are helpful monthly publications for international business people. Their articles may have a local ring to them, but Tokyo is the nerve center of country and synonymous with pan-Asian interest and *Tokyo Journal* are helpful monthlies, giving a more general focus. *Working Living* is specifically oriented helping newcomers with language, and employment.

Among the numerous books available at most hotel newsstands and bookstores are: *Set Up Enterprises in Japan*, compiled by the Bank of Tokyo and published by JETRO; *How to Do Business with the Japanese* by Herbert F. Jung (former president Bayer Japan), published by The Japan Times, Ltd.; *Japanese International Business* by K. Butler; and *Doing Business in Japan* by H. William Tanaka and Nobuyuki Takahashi, published by Business Books International.

Further information on any of the products, businesses, or services listed in this article can be obtained from Media Sales Japan, Tamuracho Bldg., 3-3-14, Shibashi, Minato-ku, Tokyo 105. Tel: 504-1926; cable: MORIM DIA TOKYO; telex: J256 fax: 595-1709.

—Serge Ballo



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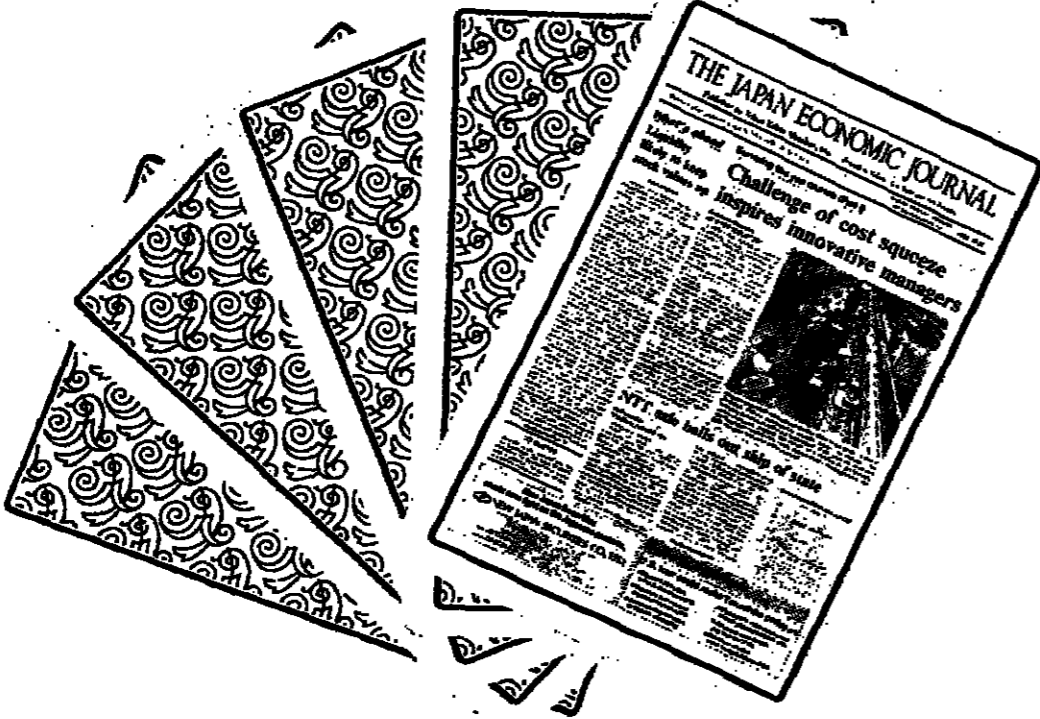
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NEW from The Japan Times

George Fields on Japan
The Japanese Market Culture

Mr. Fields draws an engaging picture of changing attitudes and lifestyles in Japan and challenges preconceived notions about why and how the Japanese behave the way they do. With 20 years experience on the scene, he speaks not only as an observer but as a participant in an era of unprecedented change.

823 pp. Softcover
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Weekly International Bond Prices

Provided by Credit Suisse First Boston Securities, London, Tel.: 01 323 11 30. Prices may vary according to market conditions and other factors.

June 23

Dollar Straights

Table of Dollar Straights bond prices, including columns for Issuer, Con, Mat, Price, Yld, and various bond types like Austriacorp, France, and Japan.

Canada

Table of Canadian bond prices, including issuers like B.C. Hydro, B.C. Hydro, and various government bonds.

Mutual Funds

Figures as at close of trading June 24

NEW YORK (AP) - The following assets of the National Association of Securities Dealers, Inc. are reported to have been sold or bought (value plus sales charges):

Large table of Mutual Funds with columns for fund name, Bid, Ask, and other financial metrics.

DM Zero Coupons

Table of DM Zero Coupons bond prices, including issuers like Austria, Germany, and various international entities.

Dollar Zero Coupons

Table of Dollar Zero Coupons bond prices, including issuers like Austria, Germany, and various international entities.

DM Straights

Table of DM Straights bond prices, including issuers like Austria, Germany, and various international entities.

United Kingdom

Table of United Kingdom bond prices, including issuers like Barclays, B.P. Capital, and various UK government bonds.

United States

Table of United States bond prices, including issuers like A.T. & T., Amco Life, and various US government bonds.

Supranational

Table of Supranational bond prices, including issuers like Council Europe, E.C.T.C., and various international organizations.

Non-European

Table of Non-European bond prices, including issuers like Air Canada, Alcan, and various international companies.

DM Zero Coupons

Table of DM Zero Coupons bond prices, including issuers like Austria, Germany, and various international entities.

Dollar Zero Coupons

Table of Dollar Zero Coupons bond prices, including issuers like Austria, Germany, and various international entities.

DM Straights

Table of DM Straights bond prices, including issuers like Austria, Germany, and various international entities.

Yen Straights

Table of Yen Straights bond prices, including issuers like A.I.C., Amco, and various international companies.

DM Zero Coupons

Table of DM Zero Coupons bond prices, including issuers like Austria, Germany, and various international entities.

Dollar Zero Coupons

Table of Dollar Zero Coupons bond prices, including issuers like Austria, Germany, and various international entities.

DM Straights

Table of DM Straights bond prices, including issuers like Austria, Germany, and various international entities.

ECU Straights

Table of ECU Straights bond prices, including issuers like Austria, Germany, and various international entities.

Weekly Sales

Table of Weekly Sales data, including columns for market, total, and other financial metrics.

Libor Rates

Table of Libor Rates data, including columns for rate, month, and other financial metrics.

WestLB advertisement for Fixed Income and Equities Trading, featuring contact information for Düsseldorf, London, Luxembourg, and Hong Kong.

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New International Bond Issues

Compiled by Laurence Desvillettes

Table with columns: Issuer, Amount (millions), Mat., Coup. %, Price, and Terms. Includes sections for Floating Rate Notes, Zero-Coupon, and Warrant-Linked.

BONDS: Dollar Advance Not Yet Felt in Euromarket

From first finance page) The appreciation could ignite a storm of disapproval from industry...

The Perpetuals Return, This Time in Name Only

By Carl Gertz International Herald Tribune PARIS — In the beginning, there were perpetuals: floating rate notes which, by definition, never mature and therefore never get repaid.

Saudis Begin Second Bond Offering

MANAMA, Bahrain — Saudi Arabia has asked banks to bid for a second offer of 1.5 billion riyals (\$400 million) of government bonds, the second stage in the kingdom's return to the capital markets after a 25-year absence.

EUROPE: Central Bank Blocked

(Continued from first finance page) was reached by EC finance ministers earlier this month in Luxembourg. "Much has been accomplished toward the goal of a monetary union, and that was a very important step," one government official said.

FARM: 'Subsidy Wars' Are Provoking a Crisis in Trade Among the Western Allies

(Continued from first finance page) world's largest food importer; today it rivals the United States as an exporter. The United States also plays the game, directly and indirectly. Take the subsidized water that makes California's vegetables competitive with imports.

DOLLAR: Pent-Up Japanese Demand Expected to Fuel Currency's Rise

(Continued from page 1) concerted support for the dollar became apparent, they have remained erratic so far this year. In the fiscal year that ended March 31, Japanese life insurance companies, which are among the largest buyers of U.S. debt instruments, showed exchange-rate change in mentality could come.

Orders for U.S. Tools Surge

New York Times Service WASHINGTON — Orders for U.S.-made machine tools surged 28.4 percent in May to their highest monthly total in seven years, bolstered by increased domestic demand, according to a report Monday by the industry's trade association.

Treasury Bonds

Table with columns: Maturity, Bid, Ask, Yield, % Chg. Lists various Treasury bond maturities and their market data.

U.S. Consumer Rates

Table with columns: Rate, % Chg. Lists various consumer interest rates such as 90-day Treasury bills and 1-year Treasury notes.

Share the wealth. Advertisement for Pacific Basin Fund featuring an image of a bottle and glasses.

BUSINESS SCHOOL LAUSANNE Seminar M.B.A. Advertisement for a business school seminar.

PACIFIC BASIN FUND 10A, Boulevard Royal, Luxembourg. NOTICE TO SHAREHOLDERS. Advertisement for a fund with shareholder notice.

STOCKS IN RE...

NASDAQ National Market

OTC Consolidated trading for week ended Friday, June 24

Table A: Market activity for various OTC securities, listing symbols, bid/ask prices, and trading volume.

Table B: Market activity for various OTC securities, continuing the list from Table A.

Table C: Market activity for various OTC securities, continuing the list from Table B.

Table D: Market activity for various OTC securities, continuing the list from Table C.

Table E: Market activity for various OTC securities, continuing the list from Table D.

(Continued on next page)

Handwritten signature or initials at the bottom center of the page.

WORLD STOCKS IN REVIEW / Via Agence France-Press

Amsterdam

Market rose strongly, with a CBS general index closing up 7.9 on the previous day...

Luxembourg

Market began the week in a mood due to inflation confidence returned as fears of interest rates abated...

Madrid

Market rose strongly, with a CBS general index closing up 7.9 on the previous day...

London

Market rose strongly, with a CBS general index closing up 7.9 on the previous day...

Hong Kong

Market rose strongly, with a CBS general index closing up 7.9 on the previous day...

London

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Market rose strongly, with a CBS general index closing up 7.9 on the previous day...

Singapore

The Straits Times Industrial Index hit a record for the year of 1,083.44 points Thursday...

Tokyo

Prices plunged on the Tokyo Stock Exchange last week amid mounting fears of inflation...

Milan

The market advanced solidly in higher volume, the Comit index closing the week at 511.06...

Paris

The Bourse was repeatedly disturbed during the week by employee strikes and bomb scares...

Zurich

The market ended the week on an optimistic note, analysts said, particularly because of the dollar's rise...

Accord Aims to Clear Way For Spanish Bank Merger

MADRID — Spain's Banco Central SA has moved to resolve a dispute with its largest shareholder, Cartera Central, over the bank's merger with Banco Espanol de Credito.

A Banco Central spokesman said Saturday that a board meeting had agreed that Alberto Alcorer and Alberto Cortina, who control Cartera in partnership with the Kuwait Investment Office, would take seats on Central's board.

The two would also sit on the merger committee set up by Banco Central and Banco Espanol, the spokesman said, adding that the accord would remove opposition by Cartera to the form the merger was taking.

Cartera, which is seeking 10 percent in the combined entity, had previously said that it favored the merger in principle but objected to the way it was being handled.

Banco Central's chairman, Alfonso Escamez, said Saturday: "It is good that these two comrades and friends will be on the board."

Mr. Cortina commented: "We have come to an agreement because it is an extremely important matter for the financial system and for the national economy."

Spain has sought to promote consolidation in the banking industry, to prepare it for increased competition in the "Ironless" European Community that is planned for 1992.

Piedmont Officials Shift to Braniff

DALLAS — The investor group that is taking over Braniff Inc. has appointed five top executives who resigned from Piedmont Aviation Inc. last week to run Braniff, a Dallas-based airline.

BIA Acquisitions, an investor group led by FaineWebber Group Inc., also said its previously announced leveraged buyout of Braniff would value the airline at \$111 million.

"We intend for Braniff to become a strong competitive force in our nation's air travel and hospitality industries," Jeffrey R. Chodorow, a BIA official, said in a statement.

BIA did not elaborate on its plans for Braniff. But in recent weeks, the group has pledged to expand the Dallas-based airline and protect the jobs of its 2,600 employees.

Braniff was once the eighth-largest U.S. carrier, but it began losing money and filed for bankruptcy court protection from creditors in 1982.

Braniff posted a net loss of \$8.1 million in the first 1988 quarter. The new Braniff management is led by William G. McGee, chief executive and president.

He had been chairman, president and chief executive of Piedmont and helped build it into the ninth-largest U.S. carrier before it was acquired by USAir Group Inc. last year.

Thomas E. Schick was named to replace Mr. McGee as Piedmont president and chief operating officer, and Edwin I. Colodny, chairman of USAir, will also be chairman of the subsidiary.

BIA agreed to buy control of Braniff from Dalfort Aviation Inc., which is owned by the Pritzker family of Chicago. BIA is paying \$7 a share in cash and a pro rata share of 20 percent of the restructured airline for each share of Braniff common stock.

The deal capped two weeks of negotiations between Dalfort and BIA. Dalfort turned down a previous offer from the investor group.

Dalfort owned 64 percent of the airline's common stock and all of its Series A preferred stock, which gave it more than 90 percent of the stock voting rights. BIA is paying \$1,000 each for the preferred shares.

New Primary Dealers Enter Crowded Field

NEW YORK — The three new primary dealers of U.S. government securities have entered a crowded club and are hoping to stake claims in a business that, according to some observers, has not been growing.

Friday's admissions to the prestigious primary dealer group bring the list to 44 firms, the New York Federal Reserve Bank said. The three new entries are Dillon, Read & Co., S.G. Warburg Securities Inc. and Wertheim Schroder & Co.

The New York Fed also released statistics showing a decline in the volume of transactions by the primary dealers, through which the Fed conducts its open-market operations to influence the U.S. money supply.

The dealers must report certain financial statistics to the New York Fed and meet standards that it sets for them.

New York Fed figures showed primary dealers' transaction volume fell between \$15 billion and \$20 billion a day for the first six months of this year, compared with the corresponding period last year.

But Robert Pollack, senior vice president in charge of government bond trading at Dillon, Read, said his firm's primary dealership status "is part of a long-term plan, so I don't think what happens in the short-term is that significant."

Peter Bass, managing director in charge of fixed-income securities at S.G. Warburg, said, "Our niche and aspiration is to be able to distribute U.S. government securities in Europe, England and Japan."

Wertheim would not comment on its admission. Other firms had mixed reactions to the new members. "I think it's getting more difficult to make money in this business," said Elizabeth Keim, money market economist at Dean Witter Reynolds Inc.

"The firms are forced to join, because some of the large customers won't do business unless you're a primary dealer," she said. "There's more competition, and the same amount of business."

However, a source at another primary dealer said, "Most people feel the full in business is just that, a hill. Since the size of the market is not shrinking, it's actually growing, and since prospects for volatility are increasing, volume should be picking up."

The admissions add one new foreign firm, Warburg, to the primary dealer list. Of the 44 primary dealers, 13 are either owned or controlled by foreign interests, six of those involving Japanese entities, the Fed said.

Not admitted Friday was Yamauchi International America Inc., the U.S. unit of the only one of Japan's Big Four brokerage houses that is not a primary dealer.

The firm had no comment, but sources said it was disappointed by its exclusion.

Wall Street Review

Table with columns for NYSE Most Actives and AMEX Most Actives, listing stock symbols, prices, and changes.

Table with columns for NYSE Sales and AMEX Sales, showing total sales for the week and year-to-date.

Table with columns for NYSE Diaries and AMEX Diaries, listing advanced declines, unchanged issues, and new highs/lows.

Payless Managers Offer a Buyout

NEW YORK — Executives of a leading do-it-yourself store chain, Payless Cashways Inc., offered Friday to buy the company for \$26 a share, or \$875 million in cash.

Last month, Asher B. Edelman, a New York corporate raider, said that he headed a group with almost 8 percent of the company and might seek control.

Payless has its headquarters in Kansas City, Missouri, and both sides were heavily represented by Kansas City building supplies.

The Edelman group includes Sutherland Lumber-Southwest Inc. and other regional building supply firms.

American Exchange Options

Large table of American Exchange Options with columns for option price, calls, puts, and various stock symbols.

Chicago Exchange Options

Large table of Chicago Exchange Options with columns for option price, calls, puts, and various stock symbols.

ASDAQ National Market

OTC Consolidated trading for week ended Friday.

Table of ASDAQ National Market data, listing various stock symbols and their trading activity.

PERSONAL INVESTING

IN THE SECOND MONDAY OF EACH MONTH EDITED FOR THE SOPHISTICATED INVESTOR — AN ESSENTIAL GUIDE TO OPPORTUNITIES AND PITFALLS — WORLDWIDE

Table of Personal Investing opportunities, listing various investment options and their details.

MONDAY SPORTS

The Spinks Fight Strategy: Keeping Tyson Out of Sync

By Phil Berger
New York Times Service
ATLANTIC CITY, New Jersey — Last fall, the trainer George Benton described an unusual move he had shown a fighter of his, Mike Spinks...

in 31 fights with 21 of those victories by knockout, have the tools not only to confound Tyson, but to beat him? While there have been opponents who bothered the 21-year-old Tyson with excessive clinching — James (Bonecrusher) Smith, for example, who lasted 12 rounds that way — those foes fought only to survive the distance.



Mike Tyson, right, sizing up Michael Spinks, left, as the heavyweight rivals meet at the weigh-in.

Shortened NBA Draft Foretells Waning of Summer Leagues

By Sam Goldaper
New York Times Service
NEW YORK — Wayne Embry called the Tuesday's National Basketball Association college draft a trip into uncharted waters.

firsts and three seconds, in the draft," said Jerry Colangelo, the longtime Suns general manager, who headed a group that recently purchased the franchise.

think they were not doing their job if they didn't have a camp. Everybody needs some time off: the players, the coaches, everybody.

will help us most. After that, we're all in the same boat, scrambling to get free agents to come to our camps.

were after watching the talent perform recently in Chicago. "I think this year's draft is deeper than the last one at the forward and big-guard positions," said Bucky Buckwalter, Portland's director of player operations.

SIDELINES

Faldo Wins French Open With Eagle

CHANTILLY, France (AP) — Nick Faldo of Britain matched victory in the French Open Sunday, making a 10-meter (33-foot) putt on the five final hole for an eagle to seal his triumph.

Nelson Keeps 4-Shot Lead in U.S. Golf

MARLIETTA, Georgia (AP) — Larry Nelson shot a six-under-par 65 on Saturday to extend a four-shot lead, with a 198 total, after three rounds of the Atlanta Golf Classic.

Hungarian Killed in Formula 3 Crash

NUREMBERG (AP) — Csaba Keszlar of Hungary was killed Friday when he lost control of his Formula 3 Dallara-VW car and crashed into a barrier at the Nürburgring circuit.

- ACROSS
1 Rumanian dance
5 Flatter
9 Basaltica feature
13 Redact
15 To join, to Jeanne
16 Dribble
17 Pride of Kilgore, Tex.
19 Puccini heroine
20 Manumit
21 Marble of tennis fame
22 Suffix for south
24 Alternate
26 Indian weight
28 Shirt insert
31 Gorki loc.
34 Partner of true
37 A proportion: Abbr.
38 Brown bread
40 Deduce
41 "— Didn't Say Yes"
42 Latitude
43 Dijon daughter
44 Top ad spot: Abbr.
45 Adjective for purple
46 Charge
47 Trains
50 Cockney's Gehenna
51 Saskatchewan capital
53 West German river
56 Orchid meal
57 Eldritch
61 Skin
62 Unreachable
65 Prod
66 Somersault
67 Tors
68 Ginger or root follower
69 Kind of card
70 Irish Gaelic
DOWN
1 Part of H.M.C.S.
2 Persian name
3 Director of Clair
4 Northumbrian settler
5 Clubman's costs
6 Among schools
7 Pose
8 Design
9 Ticket word
10 Salesman's concern
11 Suffix for tooth
12 Upon: Prefix
14 Cervine creature
18 Resounded
22 Closer to the end
25 Bony
26 Brittle
27 Banks of baseball
28 Where shots are heard
30 Opposite of downward
32 Customary
33 Moonshiner's need
35 Orig. e.g.
38 Coat with flour
39 Follower of 9 Down
48 Cyp
49 Villein
52 Church V.I.P.
54 Actor Singer
55 Springe
56 Father
58 Small shark
59 Growl
60 Fabergé jeweled item
61 Annoy
63 Gums
64 Taiwan follower

Crossword puzzle grid with letters filled in.

WEATHER
EUROPE ASIA NORTH AMERICA
Table with columns for location, high, low, and conditions.

DENNIS THE MENACE
Cartoon strip by Rick Griffin.

JUMBLE
Unscramble these four jumbles and enter the letters in the boxes below.

- PEANUTS
TELL ME, DOCTOR... YOU SEEM MORE NERVOUS TODAY THAN USUAL.
IS THERE A REASON FOR THIS?
YES, I'VE DECIDED TO CHANGE PUTTERS...
BLONDIE
I HAD NO IDEA YOU WERE A PARATROOPER.
HOW MANY TIMES HAVE YOU JUMPED?
THE HONEST TRUTH IS, I HAVEN'T MADE ANY JUMPS.
BUT I'VE BEEN PUNCHED OUT SEVERAL TIMES.
BEETLE BAILEY
WHEN I PULL MY BLANKET OVER MY CHEST, MY FEET GET COLD.
BUT IF I COVER MY FEET MY CHEST GETS COLD.
THIS ISN'T MUCH BETTER.
YOUR BLANKET IS ON SIDEWAYS.
ANDY CAPP
OUR MOTHER SHOULD BE EVEN, ANDY'S.
YEAH, MOTHER SHOULD BE RELEGATED.
I KNOW I SHOULD, BUT EVEN TIME I'VE A FEELING WITH THE WIFE.
ME TOO...
BUT EVEN HERE I'M LOSING 10-5.
WIZARD of ID
WHAT DO YOU WANT TO BE WHEN YOU GROW UP, LITTLE GIRL?
I WANT TO GO INTO A FIELD WHERE WOMEN EXCEL.
WHY DON'T YOU BECOME A WITCH?
REX MORGAN
AFTER MAKING CERTAIN THAT JUNE GALE IS NOT INJURED, DR. REX MORGAN GOES TO THE AID OF THE DRIVER, WHOSE CAR RAN THE RED LIGHT AND OVERTURNED.
YOU'RE LUCKY HE JUST SIDESWIPED YOU, MISTER. HE MUST HAVE BEEN DOING SEVENTY WHEN HE WENT THROUGH THE RED LIGHT!
WAIT A SECOND! HE'S BUCKLED IN!
GOOD THING HE WAS OR HE'D HAVE BEEN THROUGH THE WINDSHIELD.
GARFIELD
ONE THING YOU CAN SAY ABOUT ODIE...
HE'LL NEVER HAVE A MENTAL BREAKDOWN.
NO MOVING PARTS.

SOLUTION TO FRIDAY'S PUZZLE
SAVES ASTOR STEREO
CANTON PANDORA
ALL STIPEND PAM
PAIL EVANS LENA
ETNAS ALS BANGS
REGULATE MISSES
NODE ALLS
ERODED ANALOGUE
LAVES LIT YEARS
OVER HOMES DIBS
PER MISSALS NAE
ENAMELS TOILERS
STATUE ESTERS
BOAMS RHEAS

Cartoon strips by Andy Capp, Wizard of Id, Rex Morgan, and Garfield.

MONDAY SPORTS

Pirates Nip Expos in 10th Inning for Series Sweep



Nelson Santovenia, the Expos' catcher, and the Pirates' Barry Bonds try to round up a misplaced ball.

SUNDAY BASEBALL

The Associated Press
MONTREAL — Sid Bream's sacrifice fly and Mike Lavallo's two-run double fueled a three-run 10th inning that enabled the Pittsburgh Pirates to defeat the Montreal Expos, 3-0, here on Sunday and complete a four-game sweep.

Alexander and Tigers End Stieb's 9-Game Streak

The Associated Press
TORONTO — It figured that Doyle Alexander, a former Toronto Blue Jays pitcher, would have something to do with the end of Dave Stieb's nine-game winning streak.

SATURDAY BASEBALL

The Associated Press
TORONTO — It figured that Doyle Alexander, a former Toronto Blue Jays pitcher, would have something to do with the end of Dave Stieb's nine-game winning streak.

SIDELINES

Faldo Wins French Open
Arban keeps 1-shot lead
A Half-Interest in Rise

Day of the Dutch in Euro 88 Soccer Trophy Comes to Amsterdam for First Time

The Associated Press
AMSTERDAM — The soccer aristocrats of the Netherlands finally won their first major soccer tournament, and up to a million people took to the streets of Amsterdam on Sunday to welcome the team home.

Next Stop for Katrina Adams: Court 2 and Evert

By John Feinstein
Washington Post Service
LONDON — When Katrina Adams, 19, came to Wimbledon last week she had one simple goal: Win a match.



Katrina Adams smashes a return in her match with Sylvia Hanika.

REBOARD

Table with columns for Major League Line Scores, Major League Standings, and National League Standings. Includes team names and scores.

TRANSITION

BASEBALL
COMMISSIONER'S OFFICE—Suspended Floyd Youmans, Montreal pitcher, indefinitely for failing to comply with his drug testing program.

TENNIS

Wimbledon
THIRD ROUND
Miloslav Mecir (Yugoslavia) def. Ricardo Acuna, Chile, 6-3, 6-4, 6-2.

SOCCER

EUROPEAN CHAMPIONS
1988—Netherlands 2, Soviet Union 0
1988—France 2, Spain 1

Advertisement for Seiko Official Timer featuring a watch and text: 'From the world's most accurate timekeeper... Congratulations to Fastest Goal Award Winner S. Aleinikov (USSR) 2 min. 06 sec.'

